

September 25, 2006

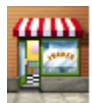
THE JOURNAL REPORT: SMALL BUSINESS
Managing Technology
Is Talk Cheap?

Internet phone companies are starting to market more aggressively to small firms. Some are taking the bait.

By **ROGER CHENG**
 September 25, 2006; Page R6

Eric Ottaway wasn't happy with the phone service at his company, Brooklyn Brewery. The system often dropped calls, and customers complained of static on the line. Maintenance costs ran \$1,000 a year.

Mr. Ottaway, general manager of the 28-person operation in Brooklyn's Williamsburg neighborhood, put off making a change for a long time. Then, two years ago, he was about to close up shop one night when he heard a pop. It wasn't a fermentation tank bursting or beer bottle shattering; it was the building's aging telephone equipment catching fire.

THE JOURNAL REPORT


1
 Women entrepreneurs have an increasing number² of places to reach out for funding. Plus, [how to claim the spotlight for your business](#)³.

• See the [complete Small Business](#)⁴ report.

"All of a sudden, there was a *ka-pow!*" he says. "And, literally, our old system went up in flames."

Instead of getting another traditional setup, Mr. Ottaway decided to replace the decade-old system with an Internet phone service powered by M5 Networks Inc. of New York. Brooklyn Brewery now spends \$1,800 a month for the phone system and high-speed connection to the Internet, compared


with the \$2,700 a month it was paying for the old system. And M5 handles the upkeep at no extra charge.

Brooklyn Brewery is one of thousands of small businesses making the switch to an Internet-based phone system, known as voice over Internet protocol, or VOIP. So far large companies have been more likely to adopt the technology. But now small companies are starting to take notice, lured by a host of VOIP providers that are creating packages of services for entrepreneurs.

Last year, small and medium-size companies spent \$2.1 billion on Internet phone systems, equipment and services, compared with \$4 billion for large businesses. By 2010, small-business spending should more than quadruple to \$8.9 billion, according to Terry White, an analyst for market-research firm InfoTech in Parsippany, N.J.

"As small businesses outgrow their existing phone systems, they are upgrading to new systems" that support Internet calling, says Mr. White. Most new phone equipment includes the technology, and hundreds of vendors are developing new applications and services that will run on those systems.

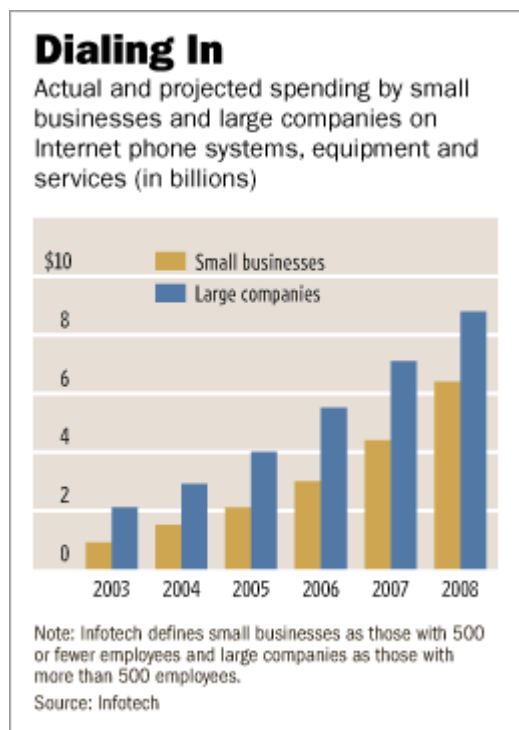
DOW JONES REPRINTS

 This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit: www.djreprints.com.

- [See a sample reprint in PDF format.](#)
- [Order a reprint of this article now.](#)

A Tough Call

Large businesses have been faster to adopt VOIP because they usually have higher call volume than small companies and thus stand to save more money by switching to VOIP. Big companies have also latched onto the phone systems' advanced features, such as checking voice mail from a computer, or forwarding calls from the office to a home phone.



For the most part, small businesses have viewed switching their phone systems as an unnecessary hassle -- particularly since nobody offered them VOIP deals that met their needs. Phone giants such as **AT&T Inc.** largely have courted multinational corporations, and VOIP pioneers such as **Vonage Holdings Corp.** focused on the consumer market.

Now that is changing -- in large part because a flurry of niche VOIP companies are springing up to focus on small businesses. Instead of marketing lots of high-tech phone features -- which big companies favor -- these providers focus on price, offering a bundle of Internet and voice at a deep discount.

Smaller providers "have cracked the code to a degree," says John Macario, president of Boston-based consulting company Savatar Inc. "They understand that what they're pitching is cost savings. They've taken the time to educate users about what they're paying for voice and data now versus having a converged solution."

VOIP comes in a number of flavors, depending on how many phone lines and services a company needs. For smaller companies just looking to save money, the best option is a simple bundle of high-speed Internet and phone service that works with the company's existing phone equipment.

Just the Basics

Small firms don't get lots of features, usually just basics such as voice mail. The providers cut costs by routing calls over their private data networks instead of traditional copper phone lines. The VOIP providers argue that these networks are not only cheaper than regular phone lines, but also more secure and reliable than the regular Internet -- which consumer VOIP services such as Vonage use to route calls.

A number of carriers provide these basic VOIP services for small businesses, including XO Communications, a unit of XO Holdings Inc., Reston, Va., and **Cbeyond Inc.** of Atlanta. XO Communications, which has 5,000 customers, says it typically charges \$600 a month for a package that includes a dedicated T1 line for high-speed Internet service; unlimited local and long distance for 10 phone lines; hosting services for the business's Web site; and a toll-free number.

Then there's a pricier option called hosted service, where a small company's provider offers it more phone lines, capabilities or features, such as audio and video conferencing and the ability to check voice mail from a computer. Providers for this level of service include XO, Covad Communications Group Inc. of San Jose, Calif., and privately held SmoothStone IP Communications, of Louisville, Ky., and Bandwidth.com, of Cary, N.C. As interest grows, larger phone companies such as AT&T, **Verizon**

Communications Inc. and **Qwest Communications International Inc.** are also targeting more small businesses.

For some small businesses, hosted services aren't enough: They need even more phone lines than the VOIP companies can provide, or they want more hands-on control over their phone system. Travel agencies, for instance, often need lots of lines and special services to queue up calls.

Private Exchange

In these cases, companies can buy Internet phones and install a VOIP phone switch -- also known as a private branch exchange -- on the premises. The switch routes calls from the office to the Internet and allows the business to install whatever features it needs for its call center.

It's a costly solution. Take the phone server made by Samsung Corp. and marketed through a number of VOIP providers. The system, which can handle 10 to 500 users, combines Internet phone service, wi-fi capability and data services along with security features. Steve Gobeli, who heads up Samsung's U.S. business communications system unit, says the unit carries an upfront fee of roughly \$500 to \$900 a line, as well as installation costs and warranty. The business would also need a separate Internet line to connect the system to the Web.

While the initial expense is high, Mr. Gobeli says, the cost of owning the system drops with time. "We believe that these types of systems give you a payback in under two years," he says.

Cisco Systems Inc. and **Avaya Inc.**, which both make VOIP phone systems for larger companies, are starting to take notice of the small-business segment. Avaya has made several acquisitions to get into the arena, while Cisco hopes its Linksys brand, known for home networking, will draw some home-office customers. "It's clearly where the industry is growing," says Cisco Chief Financial Officer Dennis Powell.

Good for Business?

When talking about Internet phone service, it's hard to exclude the biggest name in the area: Vonage. It's the nation's largest provider to consumers, and has been vocal about its desire to expand into the business market. "We see that there's potential in that area," says Vonage America Inc. President Michael Tribolet.

Vonage offers two plans -- one priced at \$40 a month, which includes 1,500 minutes of call time, and the other for \$50 a month for unlimited minutes and the ability to contact more countries overseas. The plans come with two lines, and each additional line can be bought at a \$5 discount.

The service is adequate as a replacement for companies that have an extremely small staff or use a home office and don't rely heavily on phones. But if multiple phone lines are needed, or if the calls need to go through a secure network, experts say Vonage can't compete. "It's not a business-grade solution," says Yankee Group analyst Steve Hilton.

Vonage argues that it offers features that make it attractive to business customers. Clients, for example, can add different area codes to their existing phone number, so customers in different parts of the country can reach them with a local call.

Not a Replacement

Another major name in Internet phone service, **eBay Inc.**'s Skype, has also made noise about its desire to

get into the business arena. In March, the service unveiled several products designed to make managing communications easier, including new hardware such as phones and headsets.

Still, Michael Jackson, director of operations at Skype, says it views its service as more of a complement to a business's primary phone system. "We're not trying to replace the phone on your desk," he says.

Companies looking to switch to an Internet service will continue to see more options down the line. In the next year, cable companies will likely get into the small-business arena, just as they have with the consumer market.

"It really is the remaining battleground for all of these service providers," says Mr. Macario of Savatar. "We're watching closely to see if these emerging companies can keep the momentum up and become established players, if the phone companies can step up their game, or if cable companies can get in through the side doors."

--Mr. Cheng is a reporter for Dow Jones Newswires in Jersey City, N.J.

Write to Roger Cheng at roger.cheng@dowjones.com⁵

URL for this article:

<http://online.wsj.com/article/SB115885295330970134.html>

Hyperlinks in this Article:

- (1) http://online.wsj.com/page/2_1247.html
- (2) <http://online.wsj.com/article/SB115885310695870147.html>
- (3) <http://online.wsj.com/article/SB115885283520170125.html>
- (4) http://online.wsj.com/page/2_1247.html
- (5) <mailto:roger.cheng@dowjones.com>

Copyright 2006 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com.