



WHITE PAPER

THE BUSINESS CASE FOR MANAGED SERVICES IN MIDSIZE BUSINESSES AND ENTERPRISES

IP-based managed services help businesses of all sizes reap benefits by consistently reducing IT costs while increasing employee productivity.

In business, the demand for managed IP-based services is increasing dramatically. The reasons are simple, yet compelling—the applications that businesses use the most to enhance productivity and trim costs are changing dramatically. The complexity of IP-based services is increasing, and continued management requires increasing IT resources.

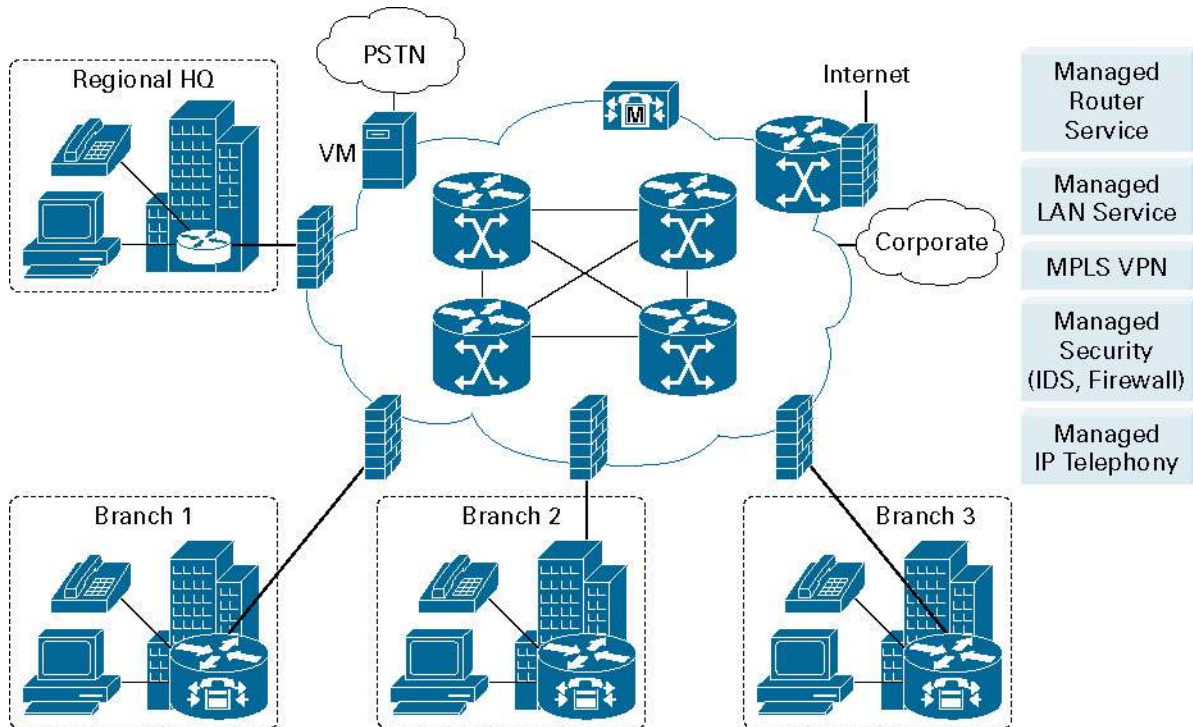
Business leaders are demanding that their IT departments move beyond the straightforward, low-bandwidth applications that ran their businesses just a few years ago to higher-bandwidth, business-critical multimedia applications that are policy-based, network-intensive, and time-sensitive. These applications, including videoconferencing, hosting services, IP telephony, and distance learning, have tremendous potential to improve productivity and reduce costs.

However, implementation requires even more time, and it stresses the limits of already-time-constrained IT departments. Those departments need to turn to their service providers as deployment partners for these new applications, and as management partners for routine network management tasks, reducing network operations costs and freeing IT personnel to do more value-added network development.

The most significant application change to business operations is the transition from traditional private-branch-exchange (PBX) switching to IP telephony. The primary benefits of migrating from a traditional PBX environment to IP telephony are savings in networking costs and complexity and a rapid return on investment, which are possible because both voice and data converge over a single network infrastructure. The IP VPN is a core enabler of IP telephony, along with all other converged services. These two managed services are deployed in tandem, simplifying network operations and reducing IT costs. At the same time, a converged data and voice WAN requires an IP VPN to prioritize and secure traffic—without IP VPN, convergence is more difficult.

The IP telephony and IP VPN managed-services foundation has led service providers to develop and offer an entire suite, or bundle, of additional managed services for businesses like yours (Figure 1).

Figure 1
Converged Network with Managed Services



These services complement each other when bundled together. For example, an IP VPN service makes managing an IP voice network simpler and more effective by establishing quality-of-service (QoS) capabilities for data and voice traffic. Complete control over the entire IP network, including the LAN, routers, and firewall, reduces the complexity and costs of network management, ensuring a higher level of quality.

REAPING THE BENEFITS OF MANAGED SERVICES

By contracting outside your organization for managed services, you can reduce or reallocate IT resources, relieving highly skilled, expensive staff of routine tasks such as monitoring routers, responding to help-desk inquiries, and resolving user problems. The result is increased IT staff productivity. The staff can turn its attention to strategic projects, improving service quality, enabling employee mobility, and integrating new technology—all proven productivity-enhancing services. The results of adopting managed IP services are often extraordinary cost savings—in some cases, 25 percent or more (source: Cisco® Analysis, 2003).

Managed services also tend to deliver comprehensive, higher-quality IT services because service providers have larger, more experienced IT staffs with specialists. Managed networks are larger and more robust, leading to greater reliability and availability, with service-level agreements (SLAs) promising up to 99.999-percent availability (“five nines”). Also, because service provider-managed networks are monitored 24 hours a day, your business benefits from higher monitoring levels and faster responses to network events. To achieve that same level of service in house, IT administrators managing an IP solution 40 hours a week would have to increase their staff by up to a factor of 5.

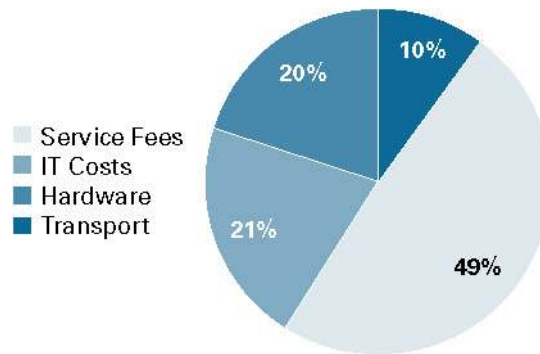
BUSINESS SAVINGS FROM SELECTING MANAGED SERVICES

By switching to managed services for value-added IP-based services, Cisco Systems® experience has identified four primary areas in which businesses like yours can realize savings—traditional service fees, hardware, IT costs, and transport. In this example (continued in case study 1), a midsize enterprise reduces service fees by 49 percent, IT costs by 21 percent, hardware costs by 20 percent, and transport costs by 10 percent (Figure 2) after adopting the managed services listed in Table 1.

Table 1. Types of Managed IP Services

Managed Service Type	Description
Managed IP telephony	Managed IP telephony service provides, provisions, and manages telephony elements and the network.
Managed IP VPN service	Managed IP VPN service enables IP telephony networks, differentiating and securing voice traffic from lower-priority data traffic through QoS and class of service (CoS).
Managed router service with dedicated Internet access	Managed router service with dedicated Internet access improves QoS by improving router integration with the service provider network that controls router settings.
Managed LAN service	Managed LAN service extends QoS into the LAN and helps ensure application quality from the desktop to the router.
Managed firewall service	Managed firewall service secures remote locations and protects the integrity of the voice and data network.

Figure 2
Breakdown of Recurring Cost Reductions



Depending on the characteristics of the business, most of the cost reduction in service fees comes from trading an outmoded traditional PBX environment for IP telephony. Traditional PBX customers pay providers standard management fees and maintenance contract fees plus hardware costs; employee moves, adds, and changes add significant additional costs. Although IP telephony fees replace traditional PBX costs, the IP telephony fees cover telephony hardware, maintenance, and other costs that were additional expenses in the PBX environment. Additionally, employee moves, adds, and changes occur at a fraction of the cost with an IP telephony network.

As a business, you also save because you do not have to purchase or upgrade hardware. Again, the greatest savings come from replacing the PBX, but with a managed service, you also can offload the ownership of switches, routers, and firewalls, as well as the software and platforms required to monitor the network.

The remaining savings come from reduced or reallocated IT resources and the lower costs associated with digital transport networks. Because the responsibility for managing their networks has been out-tasked, IT staffs spend less time monitoring the network, upgrading facilities and platforms, and restoring service to a troubled network. In addition, the cost for setting up these network platforms and policies is transferred to the service provider. At the same time, IT groups have better, more flexible opportunities to redesign their networks, relying on service provider

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network intelligence to provide greater efficiency to satisfy bandwidth demand. This reduced need for IT resources in network management can yield a combination of benefits. The costs leave your business, resulting in lower IT costs and greater profitability. And you can reallocate IT resources to other strategic IT projects, resulting in greater productivity for the IT department and employees across the organization.

It is important to remember that this breakdown of savings, though typical, may not reflect the actual savings of every business. Generally, businesses operating in a distributed environment with many remote sites, or branch offices with fewer employees, will realize greater savings from managed services.

Case studies are a good way to understand the potential cost savings and other benefits for Cisco business customers. Two case studies, showing two different business scenarios, help to illustrate the business case for managed services.

CASE STUDY 1—MIDSIZE ENTERPRISE; PROFESSIONAL SERVICES FIRM

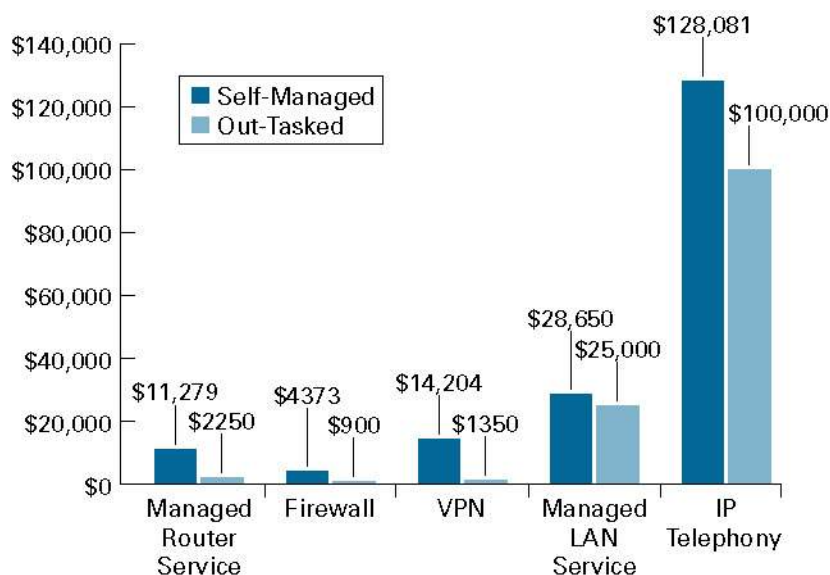
In this scenario, a hypothetical midsize professional services firm with 2500 employees has 500 employees at its headquarters, while distributing the remaining employees across 8 branch offices. Using the five bundled services listed in Table 1, it is easy to see that although adopting managed services means that a business does increase its overall service provider spending, the advantages to the business—including greatly reduced overall IT costs and higher performance applications at headquarters and the branch offices—more than offset the difference. By out-tasking network management, this business achieves several significant goals:

- Reduced management activities
- Reduced planning activities
- Improved data and telephony access-line efficiency
- Reduced overall hardware investment

Out-tasking the five services can reduce the hypothetical professional services company’s IT expenses by more than 25 percent for the relevant services (Figure 3).

Figure 3

A Comparison of Monthly Recurring Costs for Self-Managed Versus Out-Tasked Network Services

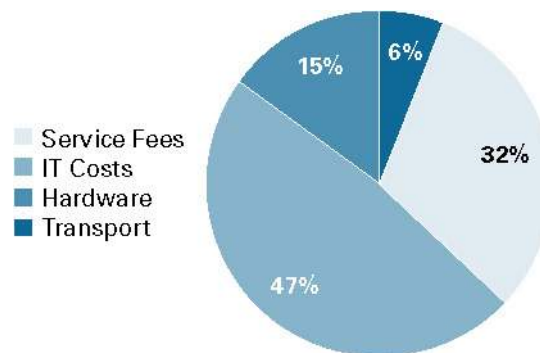


CASE STUDY 2—MIDSIZE ENTERPRISE; FINANCIAL SERVICES FIRM

In this scenario, a midsize financial services firm with 2000 employees has 1000 employees working in its headquarters. The balance of the employees is distributed across 49 branch offices, averaging approximately 20 employees in each office. When compared with the business in case study 1, the second company has 20-percent fewer employees, but 6 times as many remote locations. These remote locations are small branch offices with financial specialists in each—and no IT capabilities at all. A managed-services solution brings headquarters-style applications, and the security of knowing that the applications and network run correctly. In this scenario, the business subscriber benefits even more. Without a managed-services solution, fixing problems could require travel, and members of the regional-office staffs do not have time to travel or wait—business stops when the network is down. The IT cost reductions associated with managing and monitoring these distributed platforms across 50 sites are much higher. Figure 4 shows how significant those reductions are.

Figure 4

Allocation of Recurring Cost Reductions for Financial Services Firm

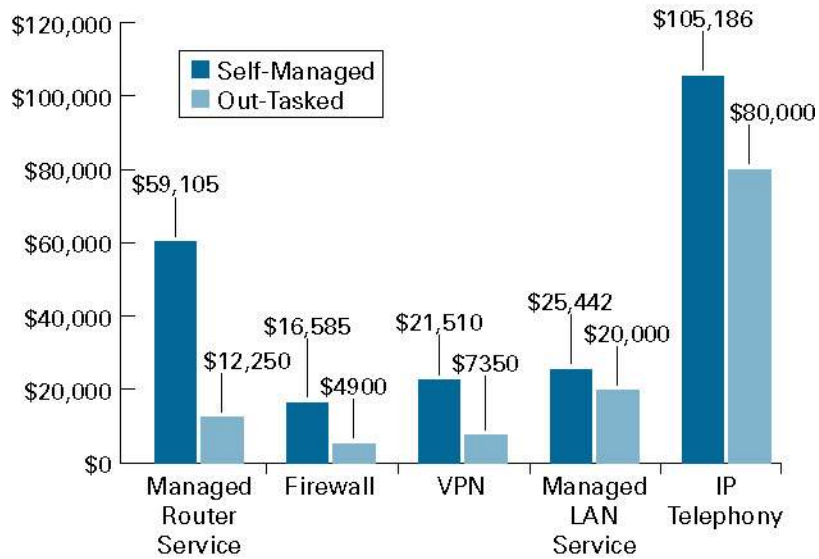


The overall improvement to the IT budget also is higher. These distributed routers, switches, firewalls, and VPN sites cost more to manage, given the higher number of network elements per employee. Whereas the professional services company reduced its costs by more than 25 percent, the financial services company reduces its costs by more than 40 percent.

This case shows the significant benefit of managed services in the branch-office environment. Again, these offices generally serve a much smaller number of employees, and keeping IT resources in the office is often not economically feasible. Also, these offices are often geographically dispersed, so problems require remote diagnosis—and in the worst-case scenario, travel over several days to resolve the problem—leading to even greater costs and productivity losses. Generally speaking, the smaller the branch or headquarters office, the greater the relative savings. Figure 5 compares recurring costs for networks that are managed internally versus those managed by service providers.

Figure 5

A Comparison of Monthly Recurring Costs for Self-Managed Versus Out-Tasked Network Services



IMPROVING IT RETURN ON INVESTMENT THROUGH PARTNERSHIP WITH CISCO POWERED NETWORK MEMBER SERVICE PROVIDERS

A managed-services approach combines an enterprise solution from Cisco with a Cisco Powered Network designated service. This approach is very powerful because it helps enable your IT group to delegate routine network management to a trusted service provider, giving your team the time and resources to focus on core competencies or IT projects that affect resources and revenue more directly. If you want to add integrated voice, data, and video services; security; or other network services, you will find the right service or set of services offered by a service provider displaying the Cisco Powered logo. Service providers offering Cisco Powered Network designated services use Cisco equipment in their networks end to end, and they must meet high standards of operational excellence and customer service and support. Unlike other service providers, Cisco Powered Network service providers are backed by the worldwide leader in networking for the Internet, and they offer unsurpassed compatibility with enterprise networks built with Cisco equipment. Cisco Powered Network designated services give you peace of mind in business operations.

Businesses that understand the value they receive by adopting managed services should know that Cisco is uniquely positioned to provide industry-leading expertise and powerful resources in partnership with selected service providers. Cisco products and solutions help enable service providers offering Cisco Powered Network designated services to partner with businesses to extend and enrich their infrastructure capabilities. Cisco offers three advantages to these businesses—industry-leading technology and solutions; expertise in creating products that support new services; and the ability to identify, influence, and brand service providers for excellence in managed services.

Cisco has developed a modeling tool that demonstrates the benefits of managed services for businesses like yours—the Cisco Managed Services TCO Tool for Midsize Businesses and Enterprises. This tool demonstrates just how dramatic your savings can be because choosing the managed-services option can dramatically lower the total cost of ownership (TCO) of your network, and improve your return on investment. This tool can help you create a customized, realistic, cost-savings estimate that can be achieved through the adoption of managed services. For a live demonstration based on your actual operating environment, call your Cisco account manager.

**Corporate Headquarters**

Cisco Systems, Inc.
170 West Tasman Drive
San Jose, CA 95134-1706
USA
www.cisco.com
Tel: 408 526-4000
800 553-NETS (6387)
Fax: 408 526-4100

European Headquarters

Cisco Systems International BV
Haarlerbergpark
Haarlerbergweg 13-19
1101 CH Amsterdam
The Netherlands
www-europe.cisco.com
Tel: 31 0 20 357 1000
Fax: 31 0 20 357 1100

Americas Headquarters

Cisco Systems, Inc.
170 West Tasman Drive
San Jose, CA 95134-1706
USA
www.cisco.com
Tel: 408 526-7660
Fax: 408 527-0883

Asia Pacific Headquarters

Cisco Systems, Inc.
168 Robinson Road
#28-01 Capital Tower
Singapore 068912
www.cisco.com
Tel: +65 6317 7777
Fax: +65 6317 7799

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