



The Hidden Costs of White Labeling Hosted VoIP

The high margins of white labeling come with risk and complexity. Consider this before you invest.

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Summary

The appeal of reselling a white label service is evident. Many interconnects, MSPs, and others aspire to promote their own brand and are enticed by the prospect of higher profit margins. However, placing your name on a provider's service exposes your brand to the risks associated with their performance. Customers won't be fooled for long by claims of expertise in telecommunications if it's not genuine.

Anecdotes of disappointing white labeling experiences are prevalent in the voice industry. Some have attempted and abandoned the endeavor, while others have felt thoroughly disillusioned. Why? Perhaps the white label providers are partly to blame, but in every case, the steep learning curve plays a significant role.

If your customers aren't expressing gratitude for introducing them to your white label voice service, it's time to reassess your approach. Mitel, NEC, Spectrum, and Avaya all tried to market their own services, evaluated their capabilities, and ultimately determined they couldn't effectively sell and support them. Consequently, they opted to establish agency relationships with other voice providers.

A gross margin analysis, focusing solely on the difference between expected sales price and anticipated costs, is merely the starting point of a comprehensive analysis. White labeling necessitates a business plan that incorporates projected costs of sales, invoicing, compliance, audits, training, and tier 1 support. Achieving positive cash flow through white labeling often requires substantial volume, which may take years or may never be achieved. The business plan should include forecasts for when this milestone should be reached. If the objective is to deliver a quality service that delights customers, additional investment will be necessary, and forecasts should accurately reflect that.

Moreover, margin constraints may disqualify resellers from large and fiercely competitive opportunities. Resellers may also be excluded when it's discovered that they aren't the actual provider or lack the geographic reach required for the opportunity.

In contrast, agency relationships require minimal analysis. Commissions yield positive cash flow from the first sale.

If you consider customer service your top skill, you can't be everything to everyone. Successful businesses cultivate long-term relationships with customers and then maximize recurring revenue and customer lifetime value. Commissions are considered recurring revenue in business evaluations and translate almost entirely to the bottom line.

If the business goals include delivering high levels of customer service, fostering loyal and long-term customer relationships, maximizing revenue, increasing the bottom line, enhancing the business's value, and all with reasonable stress levels, then white labeling doesn't align with the business model.

Understanding the Complexities of White Label UCaaS Solutions



Wazo, RingLogix, Broadsoft, and Skyswitch are prominent among the leading companies specializing in providing white label hosted PBX services to a diverse range of resellers. Many Interconnects and MSPs are attracted to white label services due to the opportunity to promote their own brand and the perceived potential for higher profit margins compared to agency sales relationships.

When evaluating margins, numerous potential white labellers compare the projected sales price to the expected charges from the white label provider. This comparison determines their margin based on the difference between price and cost. To assess the white label opportunity, they contrast their margin with commission offers for agency work.

Many white label providers encourage this narrow analysis by boasting margins of up to 70% or more.

However, upon embarking on their initial sale and installation, white labelers quickly encounter the extensive complexities of UCaaS (Unified Communications as a Service). This encompasses various elements such as call routing, ring groups, queues, IVRs (Interactive Voice Response), paging systems, door boxes, telephone registrations, SIP call processing, firewalls, routers, networks, packet loss, packet delay, and beyond. The steep and seemingly limitless learning curve becomes a significant diversion from the reseller's primary functions.



CASE STUDY

One utility provider in Tennessee succinctly describes each installation, bringing their entire organization to its knees for days.

Grasping the fundamentals of telephony and real-time voice service delivery over the Internet represents just the initial hurdle among many. The purported “70%+ margin” often gets overshadowed by numerous concealed expenses, such as personnel, time, risk, and lost-opportunity costs. These overlooked expenditures arise from various aspects including sales staff, billing, compliance, audits, pricing constraints, recruitment, reputation management, and tier 1 support.

Despite its considerable length, this paper aims to analyze the potential costs in each category. Venturing into the voice industry as a white label provider is a significant decision.

The time required to read this paper is minimal compared to the endeavor of launching a complex new business venture, making it worthwhile to gain a comprehensive understanding of the involved factors.



Sales Personnel

Similar to information technology, telecommunications is a vast and complex field, where each customer scenario differs from the last. Just as with IT, telecommunications is in a state of continuous evolution. Selling voice and hosted VoIP demands a highly specialized skill set.


For individuals already specializing in voice, finding the suitable sales talent can prove challenging. This challenge escalates for employers lacking experience in voice sales. The processes of recruitment, hiring, training, ramping up, and dealing with employee turnover all come with substantial costs and risks.

Throughout the implementation and support stages of the customer lifecycle, problems are bound to surface, and the initial steep learning curve will magnify these challenges. What happens when the sales team becomes hesitant to pursue opportunities? They might overlook potential prospects to steer clear of any negative repercussions, and some may have formed relationships with specific providers on the side.

Providers specializing in voice services focus exclusively on delivering voice solutions. They often tout seasoned sales teams equipped with abundant resources, expertise, and a proven track record of success. Can a reseller's small voice sales team, promoting an ancillary voice service, effectively compete against such dedicated professionals armed with extensive resources?

Alternatively, the reseller can choose to pursue only a limited portion of their potential opportunities. Does the allure of fewer accounts with higher margins outweigh the potential commissions from a considerably larger monthly recurring revenue? Is the reseller prepared to invest upfront capital until the sales volume compensates for the expenses associated with their dedicated sales personnel?

On the other hand, a proficient hosted agency provider will offer sales expertise to assist and potentially finalize the entire sale for their agents. Each successful opportunity secured generates positive cash flow and shields the agent from support-related burdens.



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Billing and Compliance

White label resellers bill their customers for the services they provide, thus assuming direct responsibility for collecting and remitting all local, state, and federal taxes. While there are companies that specialize in handling invoicing and compliance, their services often come with a substantial cost, particularly for resellers operating at low volumes where minimums may apply. Should the reseller choose to handle compliance independently, they will face the challenge of managing a plethora of intricate taxes, fees, and reports.

These start at the federal level and with the FCC. De minimis filers may be able to avoid collecting USAC fees, but they will still have to provide regular 499 submissions. In addition, they will need to file the complex semi-annual 477 forms with geocodes for every endpoint, CPNI certification, and CALEA compliance statements.

While many providers hold the misconception that federal excise taxes are no longer necessary to collect, this is inaccurate. The author of this white paper has undergone an IRS excise tax audit, confirming that excise taxes are still applicable to specific voice traffic and rented equipment. While tax-exempt nonprofits are still obligated to pay excise taxes, municipal governments are exempt from this requirement.

State and local governments exhibit significant diversity in the taxes imposed, reporting procedures, and remittance methods. In certain areas, numerous taxes are filed and remitted at the state level, while elsewhere, separate relationships with various city and county governments are necessary. State governments with centralized reporting systems often feature intricate structures that dissect sales figures and individual taxes across different city and county jurisdictions.



The intricate taxes, fees, and reports associated with compliance can be a burden for resellers. Partnering with a VoIP specialist simplifies this process.

Service Interruptions

Service interruptions are a source of frustration for all parties involved in the industry, including customers, agents, white label resellers, and service providers. During such interruptions, both agents and white label resellers can anticipate a barrage of communication from customers and must respond despite having limited or no information at times.

However, there exists a notable distinction between agents and resellers. Customers may contact agents directly or the service provider during outages, with the agent not being perceived as directly accountable for the disruption. Additionally, agents can guide customers to any communication provided by the service provider regarding the interruption.

In contrast, resellers serve as the primary tier of support for their “service” and are directly responsible for addressing all customer calls, including those related to outages. This places considerable strain on the reseller’s staff. Unlike agents, resellers cannot redirect customers to communications from the service provider, potentially damaging their brand reputation.

While an agent’s reputation may suffer if a recommended service provider fails to deliver, they retain the ability to advise customers to switch to another service provider with whom they have an agency relationship, thus continuing to generate revenue from the customer.



A bad recommendation can hurt an agent’s credibility, but the ability to switch clients to a trusted partner mitigates the damage.

Tier 1 Support

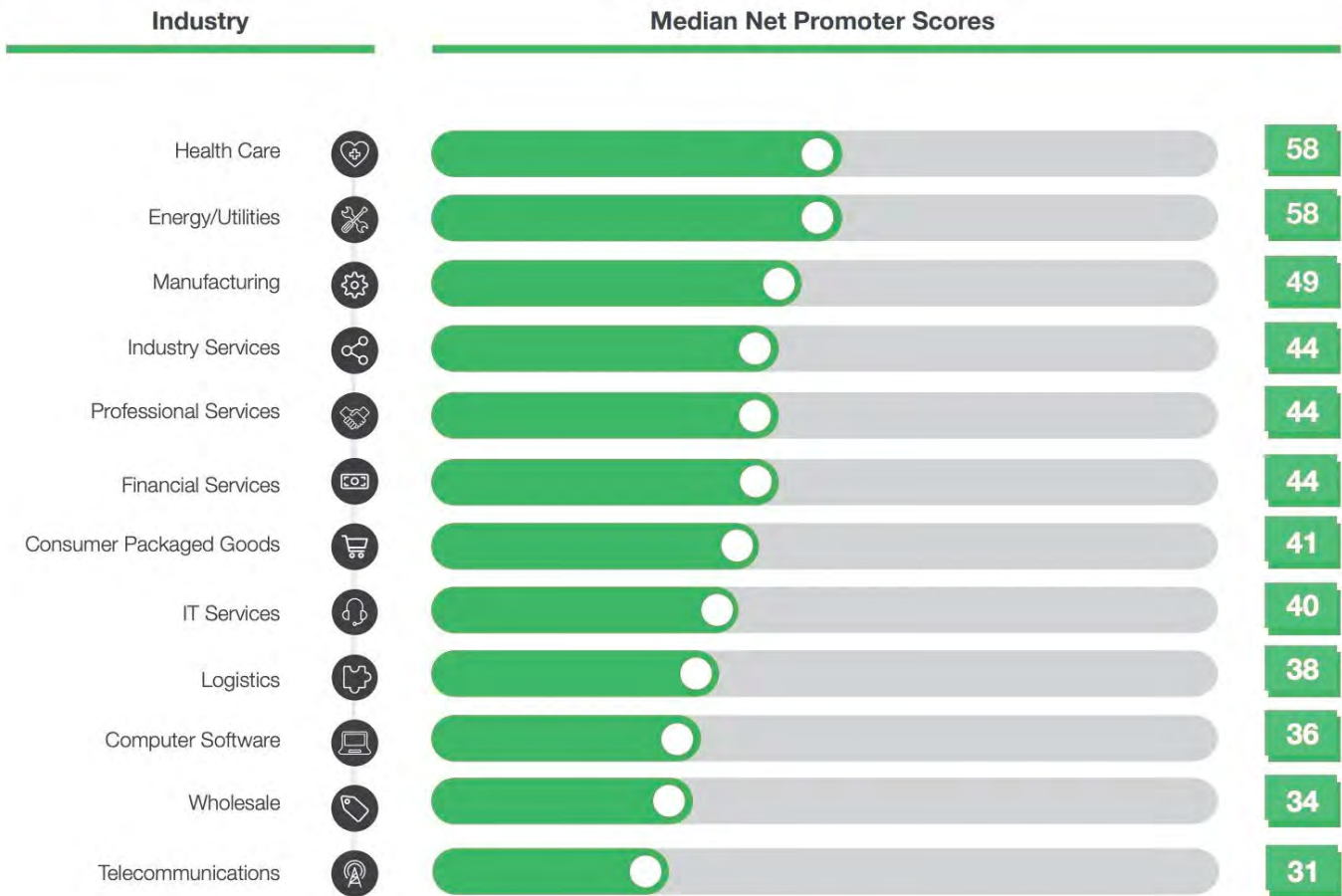
Hosted VoIP service demands a high level of tier 1 support that exceeds the expectations of most outsiders in the industry. Apart from routine requests for moves, additions, and changes, support inquiries encompass a range of issues such as dropped calls, poor voice quality, phones failing to register, firewall and internet connectivity issues. User errors often contribute to frequent issues, some of which are challenging to identify and troubleshoot.

For instance, customers commonly encounter difficulties with the “Do Not Disturb” (DND) feature on their telephones, struggling to disable it. VoIP phones offer a DND feature distinct from the service-provided DND, leading to confusion. Identifying issues related to telephone-provided DND often requires direct inspection of the handset, potentially resulting in prolonged troubleshooting efforts, sometimes necessitating on-site visits.



Support requests frequently extend to unexpected areas, including Music on Hold, auto attendant modifications, voicemail setup, name changes, lost voicemails, conference call arrangements, and 911 address updates, among others. It’s not uncommon for a 10-user account to generate as many as 60 support tickets in a year.

Moreover, many trouble reports contain misleading information, complicating diagnosis. Even major voice providers struggle with the intricacies of the highly technical voice industry and the vast volume of support required. This contributes to telecommunications consistently receiving the lowest Net Promoter Scores across major industries.



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Does your organization have the knowledge and tools to quickly identify and diagnose these problems?

If your organization lacks the necessary knowledge and tools to swiftly identify and address these issues, top white label providers typically advise hiring and training dedicated personnel, along with potentially acquiring specific tools. However, finding, hiring, and training suitable personnel can be costly and challenging, particularly for businesses operating around the clock where support may be required at any hour.

In reality, even with the right personnel and investments, resellers often struggle to meet the demands of support in terms of volume and technical complexity.



Audits

Success for the reseller often invites audits as a reward. With expansion into various geographic regions, the likelihood of audits rises with each new taxing authority engagement. Preparing for audits can demand substantial time, and in some cases, it's advisable to seek professional representation. Audits carry the risk of findings, which could result in financial repercussions such as penalties and interest. Additionally, rectifying errors and issuing refunds to incorrectly invoiced customers may necessitate additional time and resources.

Price Limitations

White label providers are bound by the base cost of the service they resell, which may limit pricing flexibility. While volume increases might ease some of these constraints, they can still pose significant limitations in large and hyper-competitive opportunities.

Moreover, certain white label providers offer to sell service on a usage-based model. While this approach may provide a lower overall cost to the reseller, it also transfers the risk of high-usage customers from the white label provider to the reseller. This risk becomes particularly pronounced in large and hyper-competitive opportunities.





Hiring

Unless the reseller is prepared for their white label voice business to overwhelm their current staff, hiring sales, sales engineering, and support personnel will be essential. These roles are highly specialized, which compounds the challenge of recruiting suitable candidates. The process of hiring, training, and managing staff will inevitably consume both time and money, with turnover being a constant factor.

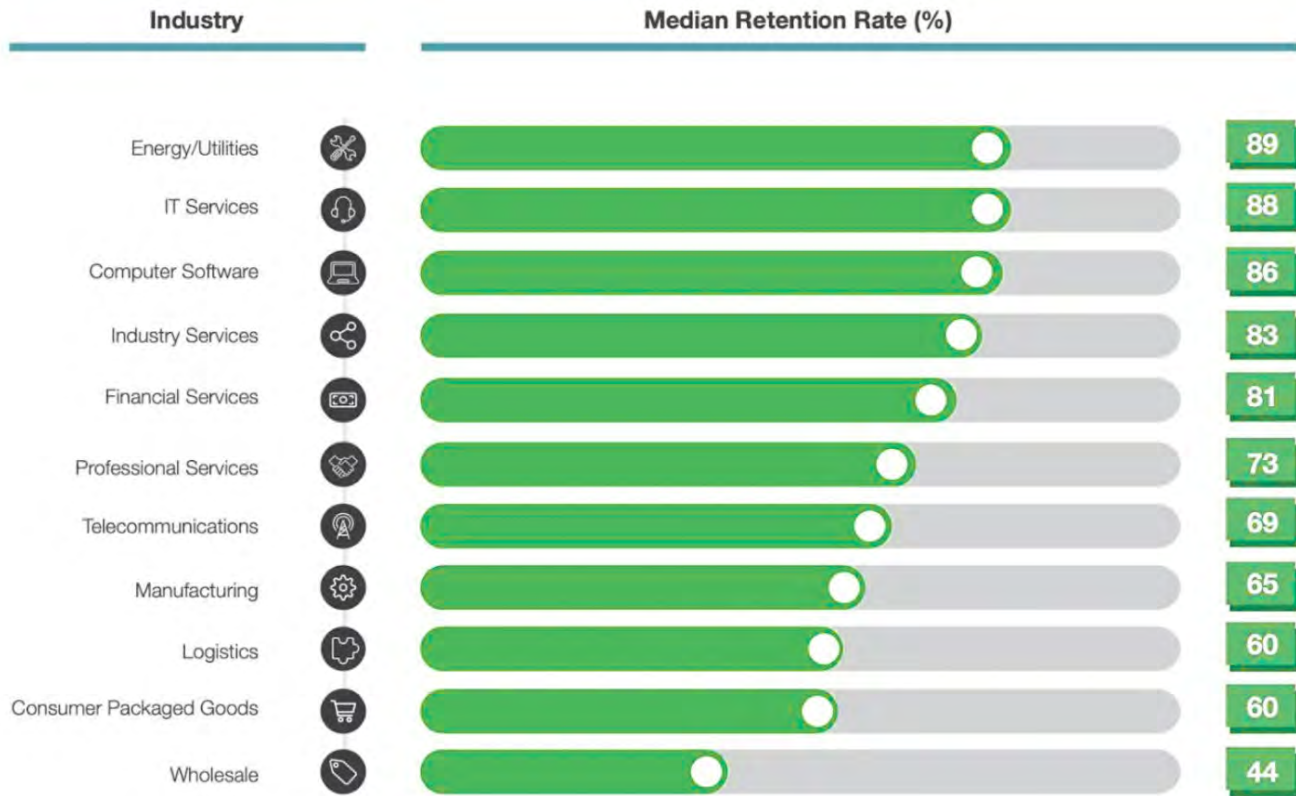
Similar to the Information Technology field, many individuals working in the voice industry may lack the necessary qualifications or effectiveness in their roles. Industry insiders often struggle to assess the qualifications of candidates. While VoIP technically falls under the realm of data, the skills and knowledge required are entirely distinct. If the reseller lacks familiarity with voice technology, they may face difficulty in identifying and hiring competent employees.

All Eggs in One Basket

The vast majority of resellers opt for a sole white label provider to leverage pricing benefits as their customer base expands. However, this approach leaves the reseller entirely reliant on the performance of their chosen provider. Provider performance can fluctuate over time, particularly in the event of acquisitions, leading to significant shifts in service quality. Once committed to a white label provider, transitioning to a new one becomes a challenging, costly, time-consuming, and distracting endeavor.



What is Your Reputation Worth?



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For resellers, particularly Managed Service Providers, their reputation essentially defines their brand. If voice services are not the reseller’s main focus, could the challenges of learning and potential missteps in voice technology jeopardize existing customer relationships? By endorsing the white label product, the reseller effectively associates their name with it. Consequently, the customer perceives the white label product as representative of the reseller. Thus, the reseller’s reputation is no longer solely within their control but is instead entrusted to the performance of the white label product.

For professionals in Utilities and IT Services, the noticeable decline in retention rates within Telecommunications warrants serious consideration. Could the loss of the voice service bearing the reseller’s brand prompt customers to seek their primary business elsewhere?



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