

# Allworx — Past, Present and Future

By Richard “Zippy” Grigonis

**M**agazine editors (even Executive ones such as Yours Truly) are often admonished by their superiors when even casually recommending a product to those inquiring readers actually interested in buying something. Nevertheless, in the telephony business, there have always been certain well-regarded systems that you could wholeheartedly endorse for an SMB (Small or Medium-sized Business) without thinking twice about it. For example, about 15 years ago — in the days when computer telephony was just getting up to full steam — a CPA and his associates asked me to recommend a phone system. My immediate, “knee-jerk” recommendation then was a Toshiba. If he had asked me in today’s era of the IP PBX, I would instantly say, “Allworx”.

The more any organization uses an Allworx — be it a 6x or 24x system — the more they realize what a great feature-rich buy it is, literally one of the best-bang-for-the-buck business communications systems anybody has seen over the past 10 years. Allworx is proof that accessing big-PBX functionality no longer requires a significant investment, nor a large IT staff.

Allworx’ hardware is further enhanced by its superlative software, enabling it to deliver a greater impact across the whole range of workflow activities with which various small businesses must grapple every day. Advanced features can be added to an Allworx system with the following optional software packages, each sold as a one-time licensing fee for an unlimited number of users:

- **Call Assistant** — Allows operators, receptionists or individual users (both local or remote) to monitor the state of every line in the system and to record and/or dispatch calls by answering, transferring, parking or sending to voicemail.
- **Call Queuing** — Software that can provide full statistics on the number of calls received, serviced, abandoned, exited and timed out for each queue. With some Allworx models (the 10x and 24x) this software allows up to 10 queues with 16 calls per queue, for a maximum of 32 callers across all queues. Moreover, individual phones can answer multiple queues.
- **Conference Calling** — Designed to handle an unlimited number of users, this package gives you the ability to set up new conference calls, authorize users to create new conference calls, access the conference interface via a dedicated Allworx portal, add conference center access via an auto-attendant, modify existing conferences, set secure ID and passwords and view all system-wide conference calls (as well as the caller participants and their caller ID).
- **Internet Call Access** — For sending and receiving Internet phone calls, this option can connect the Allworx system to an ITSP (Internet Telephony Service Provider) and supports site-to-site calling and a SIP gateway.
- **VPN** — The optional Virtual Private Network software package allows remote users (traveling or at home) access over a secure connection to your company’s intranet situated behind the Allworx firewall.



As Grant Johnson, Operations Manager of Lamborghini Orange County (the automaker’s Number 1 dealership in the U.S.), said to Yours Truly in 2007, “Allworx can tailor each system to do different things for different kinds of businesses. That’s one of the nice things about the company and this system. When we replaced our Toshiba phone system with an Allworx, we did much of the configuring ourselves under the auspices of our reseller. They helped us out with the initial programming and those kinds of things.”

Allworx Corp. ([www.allworxcorp.com](http://www.allworxcorp.com)) also has an excellent relationship with its resellers, which, as we shall see, help to drive the Allworx juggernaut. In addition to the Allworx Product division that develops phone and network systems for SMBs via authorized resellers, the Allworx Consulting Division delivers exceptional software and digital hardware engineering services to both large and small companies.

In October 2007, Allworx received a boost, both financial and technological, from its acquisition by PAETEC ([www.paetec.com](http://www.paetec.com)), a company that offers a suite of voice, data and IP services, as well as communications management software, network security solutions and managed services, to serve medium-sized and large businesses, enterprises and institutions across America.

On the eve of its 10th anniversary and its first anniversary with PAETEC, Allworx aficionados are curious as to how the integration and other matters are coming along. Moreover, the marketplace and even Allworx customers may not be fully aware of the origins of Allworx, its history and the corporate culture that has brought it to its current preminent position. From startup to acquisition, Allworx has gone through a number of exciting changes. And what of the future?

Relax, this article will reveal the whole story.

As is the case with all great stories, we must start at the beginning...

## From InSciTek to Allworx

In 1998, two engineering executives from Kodak and Xerox who had worked together since 1993 — George E. Daddis, Jr., Ph.D and Jeffrey Szczepanski — decided that it was time to start their own company.

On July 1, 1998, they officially founded InSciTek Microsystems, Inc. (the original name of Allworx) which offered outsourced engineering consulting services for a variety of companies situated around Rochester, New York, including Kodak, Xerox, R.F. Harris Corporation and other Fortune 1000 national and international companies such as Hewlett-Packard.

After the first six months, InSciTek had taken on more consulting challenges and started projects with more companies. Most of the staff had worked on the product side of various industries, so although they were consultants, they quickly realized that they wanted to get a product division up and running to help fund some of their resources.

The company now had about 15 employees and had quickly outgrown the key phone system that was part of their leased office space. Being engineers, they spent their off-hours pondering how to build a better communications 'box' for their own business. After some tinkering, they sensed a product opportunity and began to write a business plan to develop and manufacture a telecommunications system for small businesses.

The company early on realized that some of the things that they wanted to do with their system would be different from all of the other competing systems out there. They wanted to make sure that this would be a converged system that worked with both traditional TDM (Time Division Multiplexing) as well as an emerging technology of the time, Voice-over-IP (VoIP).

Over the course of about a year, through 1999, they put the business plan together and started designing what would ultimately become the renowned Allworx 10x IP PBX. From late 1999 to 2000, the development reached a crescendo and the company's product division infrastructure was starting to take shape with people who could then take these engineering schematics and source the device in the real world, comparing competitive costs, journeying around the world to compare overseas versus U.S. manufacturing. They also planned how to market the resulting product. Would it be for small and medium businesses? Could they reach SOHOs and even enterprises?

During 2000, they quickly realized that the device should be dedicated to serve the largest segment of businesses in America, the SMBs — a system that could handle up to 20 or 30 locations and 100 employees.

In April 2002, after 18 months and \$3 million in research and development, InSciTek Microsystems unveiled at New York's ITEC conference its first innovative office communications product — the Allworx 10x

plug-and-play, all-in-one system for phones, PC networks and team productivity.

Chris Talbot, Marketing and Business Development Manager at Allworx, says, "A lot of 'churning and burning' took place during the 2000-2003 timeframe. Allworx was working on market penetration, and the sales force had begun to form. We explored the idea of companies building our system and then looked at private labeling the box for other companies, but we figured out that it wouldn't work from a profitability standpoint. If you're not going to own the channel or the sales, or the strategy to market the product, then you've lost the heart of your business. Evaluations tend to be very low for simple outsource-type engineering firms, so we decided not to do it. At the other extreme, there was a period when we dabbled in selling the product directly to end users as well as resellers, but that led to too much channel conflict. All of these phases in our development were a very important learning experience for us, and the product did continue to get out there in users' hands. Allworx IP PBX prototypes fell into the hands of a few select users, who allowed us to develop some case studies and then refine the model so that when we went back to the market, we had a much better idea of what the end user needed."

"By 2003 we had a solidified management team in place as well as a winning sales channel strategy, wherein the product is sold via distribution to a reseller channel and not directly to consumers," says Talbot. "Also, Sandra M. Gault, at the time EVP of Marketing at Allworx, nailed down our marketing strategy as the leading vendor of voice and network solutions to the previously underserved SMB market, which represents nearly half of the business in the U.S. today. The strategy also involves showing how Allworx can 'future proof' your business with its flexible, scalable technology."

In 2003, after trials, InSciTek was now producing the Allworx brand of equipment. By September 2003, the magazine *Entrepreneur* had already observed that small businesses could recoup their purchase cost of an Allworx 10x and then "continue to save half the operational costs of discrete [i.e., multi-piece, separate-unit] solutions".

At this point the company split off into two segments, a framework that exists to this day. The first division is the original consulting division (now called the Allworx Consulting Division) with about 28 active top-tier software, hardware and electrical engineering consultants in the industry, working on defense contracts, nanotechnology and communications infrastructure projects, both from hardware and software perspectives. These people also work on their own proprietary projects, and obviously there is a

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great deal of 'cross-pollination' and ideation that flows from that group into the second corporate division, the Allworx Product Division, which has gone to market with the Allworx product line. Both groups 'encapsulate' Allworx.

Talbot elaborates: "When we at Allworx fully fleshed-out the initial 10x appliance, we decided it should be configurable as a full-blown IP PBX, a key system or a hybrid. Many use it as an IP PBX, but key systems can also have interesting functions such as the ability to place calls in 'parking orbits' where you can literally announce over the speakerphones things like, 'Hey Zippy, pick up extension 324!'. The Allworx 10x system can also be utilized strictly as a traditional TDM box or as a VoIP box employing SIP trunks, or as a hybrid of both. Such configurability and flexibility was a real breakthrough, a result of the kind of innovative thinking of which our engineers and consultants are capable."

By the time Yours Truly (the author) saw the Allworx 10x in late 2003, all of the technological, marketing and sales considerations had already been worked out. The product had been hammered into a refined, agile machine, a fabulous communications appliance that could be configured in real-time for whatever a company requires, and the initial groundwork had been laid for what would become the overall Allworx marketing and channel/sales strategies — a stratagem that has helped place Allworx equipment in 6,500 companies where more than 70,000 Allworx station sets are in use.

"The ground-breaking Allworx 10x communications system and the 9100 phone series [Models 9112 and 9102] were soon joined by the 6x 'Key System Killer' in February 2006 and the 24x in September 2006," says Talbot. "After InSciTek changed its name to Allworx Corporation in 2007, the 9200 phone series [Models 9212, 9202] and the Allworx Px 6/2 Expander were introduced in 2008. Incidentally, during this time the Product Division underwent tremendous expansion, posting record-setting growth on a year-over-year basis."

### Customer/Reseller Feedback Loops

Allworx equipment and software can evolve quickly because there is a short-cycle feedback loop from hands-on customers and resellers to the Allworx engineering team, who take ideas, modify the system quickly, perform testing and then roll out revisions. These qualitative improvement loops have succeeded brilliantly, even in very fast-paced environments and even when considering that both hardware and software may undergo revision.

As Talbot explains, "The reason we had the ability to quickly re-engineer our hardware was that,

once we had some of the chassis built, it was a simple matter for the engineers to go back and add or subtract components from our robust, flexible circuit boards as the need arose."

### Taking the Next Step with PAETEC

"We found that, as soon as we could land our product in the hands of resellers and end users, we got positive feedback," says Talbot. "But because we were a small company, it took us longer to get that initial acceptance curve going than if we had been a much larger, well-funded rollout. So, for the first few years of the company, we were overcoming funding resources. By 2007, Allworx wanted to take the next step. We were looking at some funding in the \$5 to \$9 million range, but we really wanted to put any funding issues completely behind us, and become aligned with a company that could take over those requirements, fund us for the life cycle of the company, as well as provide what we were looking for — a lot of additional value."

"PAETEC met those needs in spades," says Talbot. "First, our CFO, Chris Hasenauer, had worked for PAETEC as a VP of finance and had been involved in several of PAETEC's previous mergers and acquisitions. Second, PAETEC is geographically headquartered practically 'just down the street' from Allworx, so the issue of proximity was immediately taken off the table. Many Allworx employees were familiar with PAETEC, their product line and their management. Third, after our acquisition by PAETEC, they were able to come in and provide all of the necessary funding for an expansion of product development, marketing, as well as the sales channel. PAETEC essentially took care of the entire funding initiative, so that Chris Hasenauer and the entire Allworx finance team could go back and focus on further refinements, qualitative improvements and cost savings within the business."

### Tuning the Sales Channel

Allworx Director of Channel Sales Jason Beckett is responsible for the street-level sales of the product, in the process fathoming industry trends.

"I deal with all of the pain and joys of the resellers as they are out there selling our product," says Beckett. "I'm responsible for driving reseller recruitment and handling many of the large opportunities presented to us."

"The reseller model is changing," says Beckett. "Ironically, until now everybody has been talking about change except the resellers, but we're starting to see a whole new class of reseller coming into the SMB space. We've always adjusted and modified the product based on feedback from the channel and we're very responsive to specific situations that arise involving resellers. We have

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ongoing weekly discussions from a product direction standpoint to try to bring the product more in line with real-world requirements. Allworx may be part of the huge PAETEC organization, but our division can still stay very close to resellers and we hear what they have to say.”

“Until about two years ago you had data VARs who ‘stuck their toe in the water’ by occasionally selling an IP system, and they were trying to figure out where it would fit into their business model,” says Beckett. “At the other end of the spectrum, TDM voice resellers were receiving requests for IP-based products, and we would fit the bill, but we weren’t getting 100 percent mindshare with those resellers. Now, however, there has been an evolution on both data and telephony sides, and true convergence. We deal more and more with established data VARs that commit full-time resources, both in terms of operations and sales, to selling IP systems. And the TDM guys are seeing their business shift from 10 percent IP and 90 percent TDM to 90 percent IP and 10 percent TDM. Several of our resellers have undergone this transformation.”

People have been saying, “You’re going to die if you don’t change.” In the past couple of years this message has gotten through to resellers, and they are changing.

From April 1, 2007 to December 31, 2007, Allworx galvanized resellers by conducting a Reseller Loyalty Program for all authorized resellers having achieved a required minimum sales volume in the previous quarter. “Allworx Loyalty Dollars” were earned based on a percentage of total Allworx purchases. Accrued Loyalty Dollars could be redeemed by Authorized Resellers to purchase free Allworx products, including systems, phones, software options, extended warranties, and technical training. Allworx also offered accelerators to provide an additional incentive to resellers to increase redeemable Loyalty rewards.

In June 2007, Allworx instituted two other impressive programs: A five-year extended warranty program for Allworx VoIP phones and VoIP systems — the most comprehensive warranty in the SMB marketplace — and a new Return Materials Authorization (RMA) process to simplify return requests and ensure a rapid turnaround on equipment replacements. The new Allworx RMA program provides resellers with multiple options for dealing with potentially defective products. Allworx’s new Advanced Replacement Process can ship replacement units to resellers before Allworx itself receives the item for repair. Resellers can place extended warranty and RMA orders through the Allworx Web Portal at [www.allworx.com/reseller/login.asp](http://www.allworx.com/reseller/login.asp). Aside from bridging all communications between Allworx and its partners, the portal also provides resellers with a

various marketing and sales collateral, as well as access to a live calendar of training events and Allworx-Partner events.

## Educating Resellers

As Yours Truly recalls from the great days of computer telephony (the 1990s) many resellers weren’t quite familiar with the technology, but that didn’t stop them trying to sell it. Educating the reseller to prevent disaster often turned out to be a major undertaking for vendors.

“Every manufacturer has their ‘problem children’, who install something and then figure out how it works,” says Beckett. “Any vendor who tells you they don’t have that issue is avoiding the truth.”

“We have an authorized reseller program,” says Beckett. “We’ve become more selective in terms of who we allow to sell the product. But we’re not really ‘elitist’ the way some other manufacturers are, because you have to remember that in our SMB space, there’s a much broader array of individuals who will likely come into the industry and will start selling IP-based solutions in a smaller environment, because there’s much less at risk. A new reseller arriving on the scene isn’t going to sell a 5,000-line university IP PBX; he’ll start small instead. In a sense, we’re the proving grounds for many of these resellers. And because our product is so easy to install and support, and because we have a high quality reseller touch program, they respond to that. Whenever resellers need help, we’re there for them. That’s been part of our formula for success.”

“There’s a fairly straightforward process for an Allworx reseller to come on board,” says Beckett. “Our key requirement is that we require each reseller to be technically certified. They get the right to become technically certified after the purchase of a demo kit and the signing of a reseller agreement. Currently, most of the technical training consists of hands-on classroom training with a couple days’ worth of going through the product configuration and all that. With the next software release, we’ll be shifting to a hybrid model of web-based training and some hands-on classroom training, because we do believe that there’s no better way to train somebody on how to install your product than to bring them into a room, break the product and teach them how to fix it.”

Beckett adds, “Many resellers emerge from our technical training class, telling us that this was the best training class they’ve ever had because we don’t just focus on the product and how to program it, but we also spend a lot of time training these resellers on how to install it onto a network, and how to handle the issues that they come across when installing a system. We give resellers as much knowledge as we possibly can so that they know how to troubleshoot

issues when they do come up. We’ve invested a tremendous amount of money in educating resellers and we’ll continue to do so.”

“Once resellers know what they’re doing, they start to scrutinize margins,” says Beckett. “Resellers seek generous sales margins, and the margins we offer are up to about 50 points. That was part of our strategy from the very beginning. We decided we couldn’t enter the market with five or eight points of margin, and then say to the reseller, ‘This is the best you can expect’. Part of our popularity results from our healthy margins and the protection of those margins.”

## Reseller Trends

“Several trends have emerged among resellers,” says Beckett. “First of all, there’s been a great deal of networking among resellers. Take Brembo Brakes, for example, the high-end, exotic car brake manufacturer. They have distribution facilities in southern California and Florida. The California reseller worked with the Florida reseller — we equipped a multisite Allworx environment connecting those two locations, since they network with each other. We’re seeing more of these kinds of scenarios.”

“Another trend is that more managed service packages are being offered with Allworx equipment,” says Beckett. “That to me is really the ‘golden goose’, because we’ve been training our resellers not to sell our system as they would an old TDM-based PBX, where they go in, sign a contract, get 50 percent down and 50 percent upon completion of the installation, provide 30 days’ worth of free programming, and then they never hear from the end user again. Instead, resellers now deal with one of their existing LAN networking customers, or an existing telco network customer, offering a suite of services to the end user.”

Beckett continues: “After all, it’s easier to approach a company and say, ‘I already take care of your network and I’ve noticed that you’ve got a 10-year-old key system, and I’d like to talk to you about upgrading it to an IP PBX. We’ll roll it all into your existing managed services plan for your LAN.’ With that, the reseller can turn around and instead of selling the end user \$10,000 worth of hardware, he can sell \$20,000 worth of gear and then he can wrap it all around a single managed services plan to take care of everything on the network and the Allworx box. Now he’s getting \$500 a month from the end user instead of a \$250 a month maintenance contract. Indeed, many of our VARs have doubled their business without adding a single new customer, simply by being able to sell more stuff to their existing customers. That’s something I had never seen until now.”

“Being immersed in this business, we often forget that the average end user tends to be absolutely overwhelmed by the available choices,” says Beckett. “When confused, they typically look for somebody who they trust to take care of them. They would rather deal with one entity that can handle all of that for them, rather than have to try to figure out many little things on their own. We’re seeing that caliber of reseller going into companies, selling and building their business. They’re coming at us from all different directions, but they’re all coming to the same conclusion, because that’s how they’re all going to be successful. More complex solutions require more ‘hand-holding’ of end users, and that in turn translates into more money to be made. With margins, you have to look at the margins of what it costs to buy and what it costs to install. But then a reseller must consider how to make money on an ongoing basis. Most resellers are good at the former, but not the latter. In combination with teaching resellers IP technology, we also have to teach them how to run their business as a managed services business. The combination of those two things is what brings them profitability. They can’t do one without the other.”

“One key thing we’ve seen is that all the resellers are focused on how they’re going to make money in this ‘new world order’, and managed services is the way that our resellers are being successful selling and supporting Allworx systems,” says Beckett. “The use a hybrid approach to managing their LAN, phones, and so forth, and put it all under a single service umbrella. That to me is the ‘magic bullet’. It’s not easy to do. It’s a major investment by many resellers to develop a program like that. But those who do it are the ones who have figured out how to make money in this industry. That’s where our end user referrals come from.”

### PAETEC and the Channel

One of the most important enhancements resulting from the PAETEC acquisition has been to the sales channel. Not only does PAETEC have a direct channel; i.e., 400 account managers’ feet-on-the-street — it also has an account development staff and various base management people.

“PAETEC has an incredible, sophisticated channel dedicated to selling their products directly, and they have a very sophisticated agent channel and a very well-defined wholesale channel,” says Beckett. “We now have the opportunity not only to sell Allworx products direct through PAETEC, but we’re also able to reach out to the entire PAETEC agent channel and put solutions together so that all of those agents can also be selling not only the PAETEC network but Allworx phone systems too.”

Additionally, Allworx can now ‘sit at the table’. When PAETEC negotiates with ISTPs, CLECs, LECs and smaller web hosting companies, Allworx is now able to examine these opportunities and perhaps offer some strategic relationships through some of the wholesale channels.

“For example, we’re now fully approved and certified with TelePacific Communications,” says Beckett, “which has many customers in California and Nevada. The PAETEC wholesale group would sell to them, as well as other CLECs, so that brings other opportunities to the table too.”

“As a result of the PAETEC acquisition, we’re starting to see a breed of super-hybrid reseller who is providing them with data and voice networking services, and then layering on top of that the service provider network component,” says Beckett. “Now the reseller can walk into the end user’s premises and show the extensive list of everything he can do. A good example of that is a deal we’re proposing in the U.S. Northwest — a nine-location, multisite deal with a financial services company. Their first years’ savings accrued by installing an Allworx system, managing their network and reconfiguring their service provider network, will be over \$60,000, and that’s just in network cost savings. Thus, the ROI on our box in this scenario is just a little over a year. The person who is smart enough to recognize the value of that is the kind of person we’re encountering and they’re having more and more success. We’re not just dealing with ‘hardware jockeys’ anymore.”

“The funny thing is, we’re doing what was offered by telcos and interconnects 20 years ago,” muses Beckett. “You used to call a guy from the telephone company and he met with you and would go through your network, equipment and requirements, and then you got one bill. It’s almost as if the industry is coming full circle. I think part of PAETEC’s overall strategy is to bring all of those components back together to the customer as it used be in the good old days of ‘one-stop shopping’.”

### The Allworx / PAETEC Synergy

By 2007 Allworx had products that uniquely enabled its channel. Allworx systems combine features and functionality in a way that is easily deployable by the existing reseller channel. By taking the product down a notch in terms of complexity of installation, resellers familiar with how to install classic key systems (with a modest amount of training and support) are able to deploy Allworx quickly and organizations can immediately enjoy the feature set that best serves the small business and its operational workflow.

As an independent company successfully pursuing the VoIP business, Allworx, despite its

great success, ultimately found one ‘fly in the ointment’. Although Allworx had a specific focus to integrate its systems as tightly as possible with many different service providers, the providers tended to have their own view of what they were doing with the technology, and Allworx had its own take on what it was doing with its products and customers in the marketplace. A perfect integration with a provider was hard to come by.

As Jeff Szczepanski, CTO and Co-Founder of Allworx says, “The only thing we didn’t have under our control until now was the network integration aspect of it. It wasn’t a technical problem; it was more of a business relationship issue. We had to deal with both up-and-coming VoIP service providers as well as major telco players in the telephony long-haul market who were getting involved with VoIP. On the one hand, they want to drive the new technology and not lose customers, but on the other hand, they don’t want to eat away at their primary TDM customer base.”

Szczepanski elaborates: “We finally reached a point where, looking forward, we needed to pursue one of three alternatives: buy a service provider company, sell our company to a service provider or actually create a new service under the Allworx brand. This conundrum was solved with our acquisition by PAETEC in 2007. PAETEC had merged with U.S. LEC in 2006 and acquired McLeodUSA in 2008, thereby creating a national carrier and a major alternative to ILECs [Incumbent Local Exchange Carriers]. The McLeodUSA acquisition happened to occur in parallel with the Allworx acquisition and the PAETEC / McLeodUSA customer base is now being targeted by Allworx.”

“PAETEC, as a CLEC, is uniquely positioned in the market,” says Szczepanski. “The way they were pursuing customers in the market was synergistic with what Allworx was trying to do. If you look at Allworx and PAETEC together, there is no inherent conflict regarding any existing customer base, but there is great synergy in what they do in terms of customer relationships and what we do in terms of channel relationships. Our capabilities come together and complement each other in a really nice way.”

“With the PAETEC acquisition, we expected and got a great relationship, given both their excellent geographic location near our headquarters in Rochester, New York, and their terrific mix of people and corporate culture that we felt would fit with the Allworx organization,” says Szczepanski. “In October 2007 the deal closed, and we’ve been feverishly working to move forward. Things are going really well as we identify opportunities served by our advancing strategic technical fronts of providing an even more complete, turnkey,

network service provider and VoIP equipment solution to our customers.”

“A typical PAETEC customer and a large Allworx customer has up to about two T1s or its bandwidth equivalent,” says Szczepanski. “So many of our customers have similar communications needs. PAETEC has customers with satellite offices and small offices and Allworx can sell them a very competitive turnkey solution. So looking forward, we’ll be concentrating on two activities: continuing to cultivate and drive a complete, easy-to-install, turnkey solution for the classic small business customer, and being able to work better and formulate a more complete version of the Allworx products positioned to serve even larger enterprise PAETEC customers.”

“I’ve always felt that if you really want to go after the enterprise customer, first there’s the issue of capacity supported by the hardware switch, and Moore’s Law is making that easy and straightforward to up scale systems from a straight functionality standpoint,” says Szczepanski. “But what’s often missing in serving very large customers is the huge feature set and other ancillary and ‘surround stuff’ services. Given the continuously improving state of technology, it would be relatively easy for Allworx to ramp up to serve larger enterprises. Of course, it’s not just a matter of technology. When we decided to expand our system’s capability from 100 to 150 users, we did it with a simple software release. There’s nothing in our system architecture to prevent us from expanding to 300 or 500 users or more and thus entering the enterprise space, other than a conscious decision not to do so.”

“Of course, any SMB customers over time could very well grow up to be an enterprise,” says Szczepanski. “Time after time you define the upper end of your product’s scalability, and then you get a company who buys into the product and they enjoy considerable growth and you don’t want to lose them as a customer because they’ve gone from a 300-phone installation to 3,000 phones. The temptation for any manufacturer has always been to continue to scale up their product, but one of our concerns is that diversifying resources to achieve that takes away from our core strategy, which is to be the easiest and simplest IP-based communications system to install in the SMB space. We believe the real market gains are in the SMB space.”

“So, for the present, Allworx will continue to invest and drive toward serving sites having up to 100 or 150 users,” says Szczepanski. “We’re not trying to be another Cisco Call Manager, where they have a huge feature set that gives more power to the enterprise, but also has an inherently more complicated installation and knowledge base that must be installed too. We apply the 80/20 rule

— 80 percent of businesses use about 20 percent of the possible features. Very large organizations may use all of them, but a large R&D investment is necessary to satisfy every possible unique functional requirement that an enterprise can dream up. By focusing on SMBs, we can sell an easy-to-deploy, cost-effective system.”

### Allworx, PAETEC and the Future

Allworx continues to advance with new features and ways of improving their systems’ integration capabilities, increasingly leveraging the resources and customer base of their parent company, PAETEC.

“In the past we had a relatively small team of engineers producing hardware and software,” says Szczepanski, “since it allows us to respond quickly to customer and reseller feedback. Now, following the PAETEC acquisition, we can make an even higher level of investment in our core technology. We’re now scaling up the organization from developing one hybrid platform at a time and

then one major software release at a time to where we can overlap and speed up both our hardware and software pipelines. We’re adding people to the team, and my challenge is to continue to scale that process up so that it doesn’t disrupt the current flow of development. Over the next 12 to 18 months, we’ll build out the pipelines so we can have two simultaneous hardware and two simultaneous software initiatives running at one time. That will increase the rate that we can ship both hardware and software solutions.”

“As I said, we have no plans to follow the ShoreTels or Nortels into the enterprise space, simply because the opportunity ‘cost’ for us is very high,” says Szczepanski. “However, PAETEC does have a presence in the enterprise space and we’ve already started to see their customers coming to us, asking, ‘We’ve been a loyal PAETEC customer for five years and I’d really like to discuss installing an Allworx solution for my application.’ But, interestingly, the requirements we see are not so much for huge installations as

### How Allworx Fits into the PAETEC Advanced Solutions Group

Allworx is one of the Advanced Solutions Group (ASG) subsidiaries of PAETEC. Jack Baron, President of ASG, leads all six of PAETEC’s subsidiaries, which provide products and services that complement PAETEC’s core data and voice offerings, and provide critical solutions for customers. PAETEC has several well-defined channels, and there are opportunities in all of them for Allworx (and vice versa).

One ASG component, PINNACLE Software ([www.pinnsoft.com](http://www.pinnsoft.com)), offers a structured progressive approach to implementing service lifecycle management, consolidating disparate operations and data into a comprehensive whole, providing value-added self-service to their customers, and automating the provisioning of PBX and carrier services, all with the PINNACLE Communication Management Suite. PINNACLE’s product is compliant with key IP telephony solutions from Avaya, one of the world’s leading providers of business communications applications, systems, and services.

Another major PAETEC ASG subsidiary is the Integrated Solutions Group (ISG), which represents Avaya, Cisco and Allworx and handles installs and network management for complete VAR end-to-end connectivity on the WAN and LAN. To help customers even further, PAETEC’s Equipment for Services (EFS) program,

another ASG component, is a mechanism in which PAETEC subsidizes a customer’s cost for new equipment or software as part of a broader network services package. A business can use EFS to reduce or even eliminate the cost of upgrading their communications network.

Working together, ASG’s components form a whole greater than the sum of its parts, enabling greater ‘through-sales’ for the parent company. Allworx, for example, works with its ASG partners to pull more business through by leveraging all of the various business units. When PINNACLE Software solutions are sold, their staff is always assessing the customer’s other needs. Do they need a new phone system? Do they need a large web presence? Do they need disaster recovery? Is there a business continuity solution that can be implemented? Exploring these considerations can “pull” ancillary services and products through to a customer, such as those offered by Allworx, and/or the actual network management and installation of other network components that can be done by ISG.

Thus, an organization dealing with one PAETEC ASG subsidiary can ultimately benefit from the expertise and resources of the entire Advanced Solutions Group.

multisite environments. We recently inked a deal with a PAETEC MPLS-based customer having 56 locations across the U.S., but I wouldn't define them as an enterprise customer. Instead, I'd define them as a medium-sized, multisite PAETEC customer where our product happens to fit the bill."

"Thus, we'll be concentrating on multisite systems, since even small businesses are becoming more distributed and multisite-oriented," says Szczepanski. "These businesses are becoming more sophisticated, so we are also working on Class-of-Service capability, with more sophistication and service features to serve different types of users. We're encountering more MPLS networks engineered across multiple sites. Fortunately, our technology can simply ride over an MPLS network and provide the customer with a unified solution with no trouble at all. Our architecture lends itself to that type of customer, and, fortunately, the sophistication of our resellers is getting to the point where many are able to service and sup-

port larger multisite customers. For example, we have a customer who owns 12 John Deere franchises scattered across the Midwest, and one of our resellers services all of their telephony and data needs. He's able to successfully manage that size customer."

"In the near term, aside from software enhancements and complete multi-site convergence, you'll see a more robust phone product line from us, such as our new 9224 phone that will appear by the end of 2008," says Szczepanski. "We're adding more buttons and capabilities. We'll also be unveiling some new messaging technology this fall that will reposition the Allworx box."

"Allworx is also investigating a mobility convergence play for 2009," says Szczepanski. "We'll be readdressing our SMB base. Now that we offer all of the features SMBs need, we're now determining what else we can do to push the envelope forward and come out with new innovative solutions to enable people to fully energize their business."

Szczepanski concludes with, "We've also been working on something called Allworx University, which we'll tell the public about around November 2008."

## Onward to the Next Level

Allworx has come a long way and has a great deal to celebrate on its 10th anniversary. With its acquisition by PAETEC having brought into the picture increased funding and a great support structure, Allworx, already beautifully positioned for the SMB market and its resellers, is now poised to become America's premier SMB phone system. Within five years or so, Allworx will be the most recognized brand for phone systems.

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*Richard "Zippy" Grigonis is Executive Editor of TMC's IP Communications Group.*



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