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The Cost of Not Acting: The Total Telecom Cost Management Benchmark Report

November 2006

Executive Summary

The average Fortune 500 Company reports that telecommunications and related network services are a top-line item expenses accounting for 3.6% of their revenue. Our survey respondents had an average of $30 million in annual telecom expenses ranging from $250 million to $450 thousand. Some challenges in managing these expenses include decentralized spending, continually changing inventory, complex billing for a wide range of offerings, and baffling contracts with continually changing amendments that are difficult to understand. Local service providers are often selling to facility managers at regional offices that are eager to buy telecom services on their own. This is exacerbated because over two-thirds of enterprises do not have a program to drive centralized procurement of telecom services. Wireless services present additional challenges with uncontrolled growth.

Key Business Value Findings

- On average, enterprises proactively manage 67% of wireline expenses and only 57% of wireless expenses

- Best in Class enterprises proactively manage 90% or more of their expenses.

- Enterprises forfeit 12% to 18%, if they do not have a proactive approach to cost management that leverages technology and process improvements through business process outsourcing, hosted or licensed software.

- The ability to pay invoices on time has a significant impact on the ultimate cost of telecom services. Contrary to conventional thinking, 65% of our survey respondents incur late payment penalties. It may seem insignificant at .5% to 2%, but the impact over several months produce an average of 2.9% late payment penalties. The effective yield is higher if one considers the compounding effect, redeploying these funds to reduce corporate capital requirements or putting the funds to work in an investment at today's interest rate of 5%.

> *"Our culture of decentralized management has served us well competing with larger energy companies and wild-catters. When it comes to managing our telecom network, we don't have a good handle on what we spend. There are inefficiencies in how we manage costs and I find regional offices pay higher rates compared to the corporate contracts that I negotiate."* - Director of Global Voice/Data Communications.

- Our benchmark also reported average (labor) savings of 21% for use of Business Process Outsourcing (BPO) or software for invoice-processing and 31% for service order management. These are the savings after the costs of the programs.

- Reverse auctions are driving significant incremental gains, with average cost reductions of 33%, but user adoption is low with 14% currently using this technology and 61% indicating they have no plans to use reverse auctions.

- Service order management software and outsourcing are also adding value, with average savings through process improvements of 12%.

Implications and Analysis

Over the past two decades, telecom costs have followed a deflationary trend, yet many enterprises find their spending continues to rise as declining rates for telecom services are offset by ineffective cost management initiatives and increases in the consumption of services. Wireless costs are also increasing even though rates are decreasing. Organizations should strive to reduce their costs by establishing performance metrics to measure overall efficiency in spend and the associated labor costs for managing the expenses. With wireless services rapidly expanding, enterprises need to establish policies and metrics to control these expenses as part of a Total Telecom Cost Management (TTCM) program that covers the full lifecycle for telecommunications expenses.

Recommendations for Action

Our benchmark shows cost savings from two main areas: reduction of telecom costs and process improvements for reductions in labor expenses and management of telecom expenses. Organizations should take action to improve management of telecom spend:

1. Centralize telecommunications procurement (for both wireline and wireless services) with one service order management system
2. Aggregate all telecom expenses with an invoice-processing system in the next 12 months through business process outsourcing, hosted, or licensed software
3. Select metrics to track telecom expenses (below are some examples)
   a. What are the total telecom expenses for wireline and wireless services?
   b. What are the monthly telecom expenses by supplier?
   c. What is the average expense per employee and expense by department for voice, data and wireless services?
   d. What are the late payment penalties for delays in processing and approving invoices
   e. How does monthly budgeting of current charges compare to forecast and prior periods?
   f. What are the costs for specific services: (e.g. LD actual cost per minute, T1s, wireless voice, wireless data?
4. Select metrics to track labor costs associated with managing telecom expenses:
   a. Identify costs for sourcing telecom contracts from gathering information to finalization of contract terms and conditions.
   b. Track costs for service order management and Move Add Change Disconnect (MACD) management (for wireline and wireless expenses)
   c. Identify the costs to process an invoice from receipt to payment
      o How many people handle an invoice from receipt to payment?
      o What are late payment penalties are incurred each month?
      o Can you quantify the costs associated with managing and reporting allocation chargebacks?
   d. Identify the costs associated with managing a dynamic inventory of continually changing telecom services

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Chapter One:
## **Issue at Hand**

Key Takeaways

- Enterprises top challenges are visibility and improved asset management. These priorities were selected by 82% of respondents and 74% of respondents.

- Plans for deployment of Voice over Internet Protocol (VoIP), which 64% of enterprises are pursuing, and expansion of wireless services create demands for greater visibility and control of inventory.

Telecommunications is a key driver for communications with customers, suppliers and peers. While prices have come down, overall spending continues to rise as enterprises consume more services and labor costs, associated with managing telecom network costs, continue to rise. Managers must also deal with dramatic changes in network technology reflected in the rapid growth of wireless services and VoIP. Organizations must evolve or they will be left behind with excessive administrative overhead and higher telecom costs.

Technology: Don't Forget to Disconnect Obsolete Services

Enterprise networks are shifting from traditional voice networks to data-centric networks. (Figure 1) VoIP and MPLS technologies are essentially voice communications transmitted over a computer network. This increases the trend for growth of data services. Old ratios of so many lines per employee are obsolete because many employees work off site relying on wireless services and remote access.

Figure 1: VoIP Technology Plans
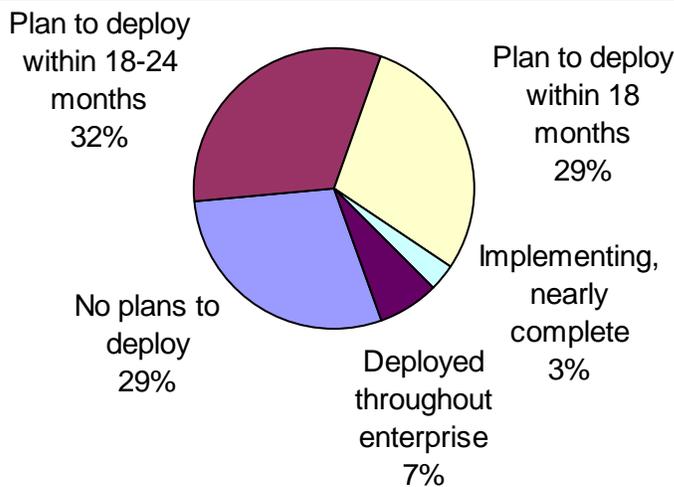
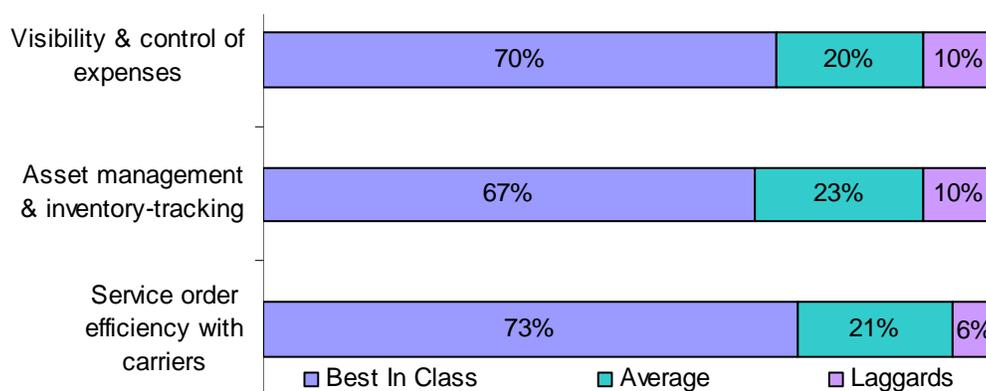Source: Aberdeen*Group*, November 2006

The savings will only come if voice services are reduced. Enterprises must monitor traffic and optimize their trunks to ensure that the discontinued services removed from billing. These expenses would include the monthly recurring access cost, usage charges for local, regional toll, long-distance services and monthly regulatory fees.

No Visibility and *Out of Control*

On average, enterprises proactively manage 67% of their wireline expenses and 57% of their wireless expenses. Aberdeen research has found that entire categories of telecom spend are nearly invisible to enterprises due to lack of formal policies, poor control of procurement, and weak reporting. Only 32% of the survey pool report that they use service order management software. The result of this low adoption rate for procurement software is that procurement is often decentralized with little control over what gets ordered, who receives the bill, and where it is paid. Our survey shows firms are struggling in all three categories (Figure 2).

Figure 2: Grading Performance

Source: Aberdeen*Group*, November 2006

Little information is captured because 46% of carrier billing is received in paper format (Figure 3). The average Fortune 500 enterprise receives over 15,000 telecom invoices annually and mid-market enterprises receive more than 3,000 telecom bills each year. Enterprises, particularly those with regional offices, are inundated with separate bills for every location. Moreover, with wireless services, many enterprises receive individual employee bills that have not been consolidated to a master bill, or they simply reimburse employees through expense reports and have no system to track the wireless expenses. Telecom bills are growing increasingly more complex, containing more than 100 pages of indecipherable line items that require customer service records and knowledge of carrier nomenclature to understand the individual charges.

Figure 3: How Telecom Bills Are Received
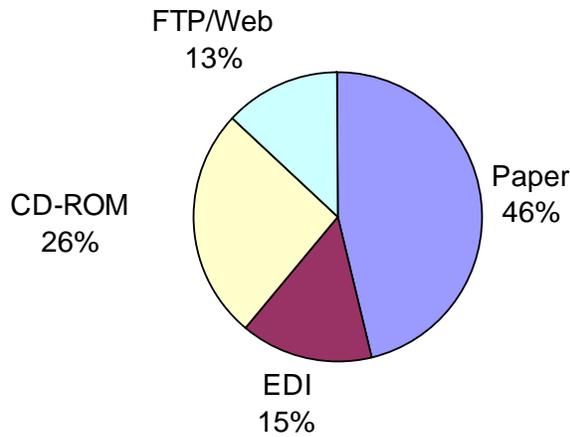
When bills are received in paper format, it's nearly impossible to perform automated audits. Inefficient manual processing can lead to lost bills, uncontrolled service disconnects, and late payment penalties. The respondents to our latest benchmark average 2.6% late payment penalties (Figure 4). Best in Class enterprises leverage business process outsourcing and software to reduce late payment penalties.

Figure 4: Late Payment Penalties
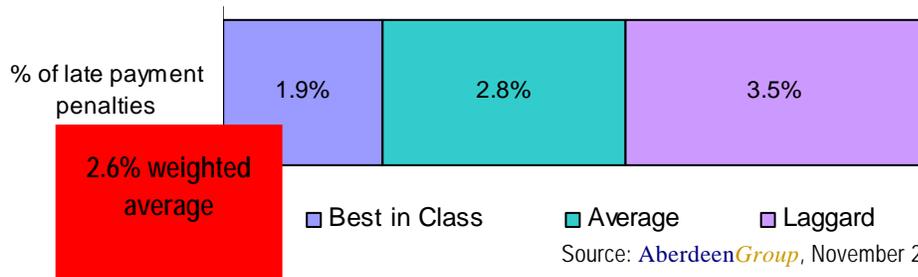
In our latest survey, respondents clearly identified four main challenges in telecom cost management (Figure 5). Follow-up interviews show managers need to get visibility into one snap shot of all of their telecom network expenses aggregated together. They also seek to improve inventory asset management, which will help to drive overall reductions in telecom costs. It is interesting to note that there are other areas which did not rank highly. For example, overall ROI and the costs for BPO programs or software was selected by only 36% of our respondents. The value delivered from this offering makes these issues less important. Also management of international spend ranked as a low priority for 8% of our respondents. Follow-up interviews indicated that many enterprises are in the beginning stages of managing global telecom costs. At this point, they are placing more focus on getting control over their domestic expenses.

Figure 5: Top Challenges

Challenge	Percentage
Visibility & Control: reporting, chargeback, & dashboards	82%
Inventory asset management	74%
Invoice processing efficiencies	72%
Ability to drive overall telecom cost reduction	70%
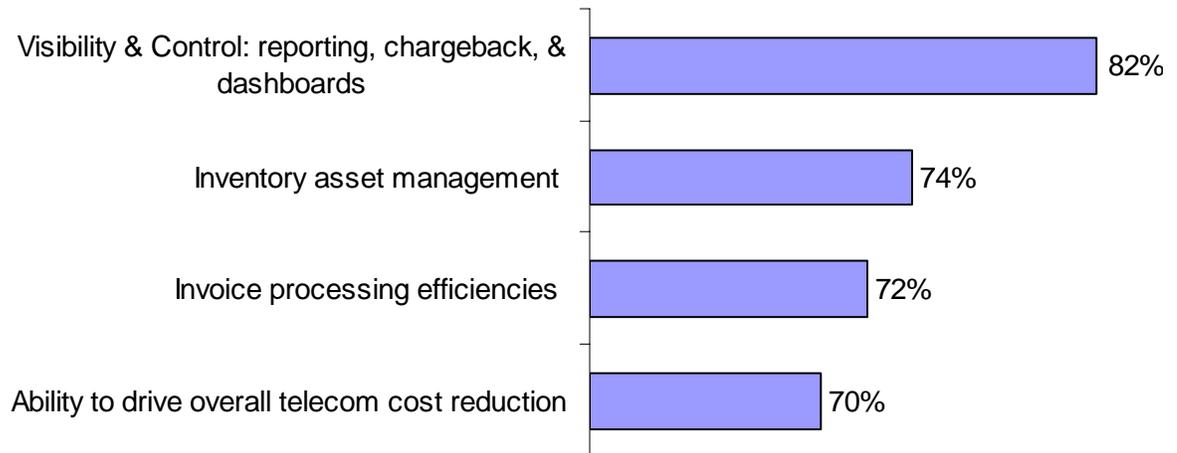
Source: Aberdeen*Group*, November 2006

Chapter Two:
Key Business Value Findings

Key Takeaways

- Nearly 80% of this year's survey respondents have formal telecom spend management programs in place.
- Best in Class enterprises outperform their peers by more effectively leveraging automation and process improvements to achieve better employee productivity, as well as larger cost reductions.
- Technology can be an enabler for both internal and outsourced TTCM programs, with savings from labor savings of 21% for invoice-processing, 31% for service order management and telecom cost reduction for sourcing, audit, and other categories.

Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE). (Table 1 and Table 2) We also identify enterprise responses to their challenges (Table 3). There is a relationship between the pressures organizations identify, the actions taken to overcome challenges, and their subsequent competitive performance. Through PACE methodology and our competitive framework, Aberdeen's research provides a "best practices" blueprint for organizations seeking to implement Total Telecom Cost Management.

Aberdeen's PACE model is closely aligned with our TTCM framework which calls for management of the full end-to-end lifecycle for telecom expenses. The TTCM framework includes procurement, sourcing, invoice-processing and reconciliation, asset management, and reporting. The key is to identify gaps in the end-to-end process and look for ways to address these challenges through software, business process outsourcing and improved process. There is rarely one single area that will address all of the savings opportunities. TTCM requires a comprehensive holistic approach. To implement the actions cited in the PACE chart that follows, enterprises should focus on three particular strategies:

Table 1: PACE Key
These terms are defined as follows:
Pressures — External forces that impact an organization's market position, competitiveness, or business operations
Actions — The strategic approaches an organization takes in response to industry pressures
Capabilities — The business process competencies required to execute corporate strategy
Enablers — The key functionality of technology solutions required to support the organization's enabling business practices

1. Develop or access specialized TTCM software to manage sourcing, reconcile service order activity, process invoices, and track usage

2. Develop standard procedures for managing and reporting telecom costs

3. Leverage software or transition underperforming processes, assets, and management of telecom expenses to a third-party for business process outsourcing.

Table 2: PACE for Telecommunications Cost Management

Pressures	Actions	Capabilities	Enablers
Desire to cut costs by ensuring best available pricing and reduction of time to source contracts	Create baseline of current services and spending with each provider; identify contract expiration dates, minimum annual revenue commitments, and evaluate vendors to ensure network redundancy	Establish competitive environment for sourcing carrier services where carriers compete for business; Align negotiation strategies with knowledge of alternate service providers	Create an environment where incumbent knows they will lose the business unless they provide best pricing; Issue RFP for carrier services and evaluate reverse auctions. Establish central repository for contracts
"Maverick" spending with limited control over who places orders and how they are placed and tracked	Establish procurement compliance Ensure employees order from approved vendors Develop formal entitlement policies on wireless use and expense policies.	Establish way to ensure all services are centrally approved, compliant with policies, and ordered against contracts	Deploy software or business process outsourcing to Service order management software with workflow for approval routing.
Technology Change: Migration for VoIP, MPLS, and remote employees	Build a detailed network inventory and review contracts for any issues with minimum annual revenue commitments (MARCs) that could be triggered by migrating to new technology.	Establish project management responsibilities and ensure old services are removed from billing as new services are added.	Leverage procurement system to track move add change disconnect activity, activity milestones, bill reconciliation, and contracted rates for new services.
Inefficient invoice-processing: desire for labor cost reduction, controls for missing bills, and reduction in time from receipt to payment	Automate manual processes and migrate from paper to electronic billing media.	Deploy software or business process outsourcing to reduce invoice processing cycle time and implement workflow with tracking for automated invoice approval, and payment status.	System to upload electronic media and process paper bills when electronic billing is not available. Relational database with invoice and contract reconciliation, allocation templates.
Inaccurate/incomplete inventory	Establish inventory repository and life-cycle management for wireless/wireline services	Deploy software or business process outsourcing to create inventory	Establish program to continually update service orders and physical inventory with billing
Out of control budgets with limited visibility into spend categories	Use data from invoice processing and Accounts Payable to create reporting of all expenses	Provide visibility to business units on their expenses Determine spending for specific services, carriers, expense projections vs. forecast	Establish reporting module from database of invoice-processing and payment activity

Source: Aberdeen*Group*, November 2006

Top performers prioritize, select, deploy, and employ processes for telecom cost management in ways that generate better results. In the next section, our research will demonstrate how these organizations manage a larger portion of their expenses. Readers should examine PACE selections and identify perspectives and actionable insights to be gained by comparison with PACE priorities of top performers.

The responses below show more mature categories have gained widespread adoption to mange invoice process and employ auditing to drive cost reductions.(Table 3) However, enterprises need to view telecom expenses as an area where they need to manage the full lifecycle. The chart below shows gaps in process and technology that could lead to additional costs. Our next section highlights the costs of not acting to address these gaps. Best in Class understand interrelated items can drive savings. For example, terms and conditions for contracts may impact rates on bills. It may require careful study of contract language to determine the accuracy of pricing. Timelines need to be tracked for when a service is requested, when it is implemented, and when it appears on a bill. If there is a four-month delay for the services to appear on a bill enterprises need to accrue for the charges.

> *"After we closed the loop between our provisioning [service order] activity and our accrual process, we were able to free nearly $450,000 from our budget. Managers did not feel the consequences of inflated accrual estimates and the accruals tied our money up each month preventing us from deploying funds for other investments."* - Controller, Financial Services Division

Table 3: Challenges & Responses to Telecom Cost Management Inefficiencies

| Challenges	%	Response (Software or Service)	Use	Future Plans	No Plans to Use
Visibility and control: Reporting, trend analysis, allocation chargeback, and dashboards	82%	Invoice-processing allocation chargeback reporting	70%	22%	8%
		Call Accounting	45%	26%	29%
Asset management and inventory tracking	74%	Service Order Management Software	32%	38%	30%
		Inventory asset management	49%	40%	11%
Invoice processing efficiencies	72%	Invoice-processing allocation chargeback reporting	70%	2%	8%
Ability to drive overall reduction in telecom costs	70%	Auditing	58%	38%	4%
		Inventory optimization	49%	40%	11%
		Online reverse auction	15%	24%	61%
		Strategic sourcing consulting services	31%	24%	45%

Source: Aberdeen*Group,* November, 2006

Who Drives Telecom Expense Management Initiatives?

Our survey results show the vast majority of enterprises place ultimate responsibility for managing telecom costs with their Technology or IT department (Figure 6). It should also be noted that many different groups play a role in managing telecom costs. Procurement may get involved in sourcing a contract, but A/P and Finance also play a role for ensuring the contract is validated against bills. Facilities management would be responsible for ensuring the assets are in place and providing access to the facility.

Figure 6: Responsibility for Managing Telecom Costs
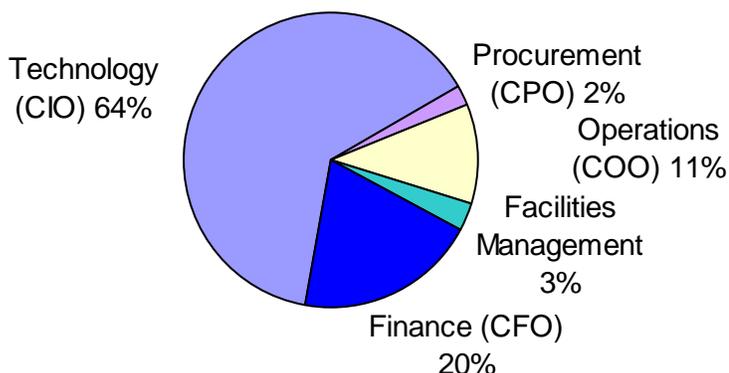
Source: Aberdeen*Group*, November 2006

Assigning budget ownership and securing senior management support are critical to improve wireless mobility management. Programs are in the early stages with 54% of our respondents indicating they have no formal program currently in place. Ten percent of survey respondents indicate no group has central responsible for managing wireless expenses. While four departments have a role in wireless management, many organizations recognize security and network issues make IT the best group to manage wireless costs.

Figure 7: Which Group Manages Wireless Expenses?
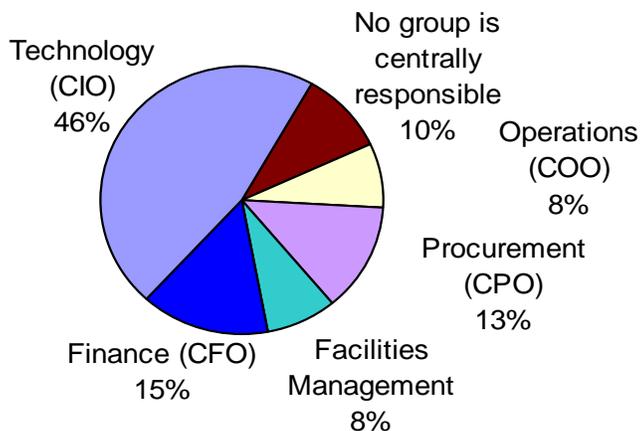
Source: Aberdeen*Group*, November 2006

Chapter Three:
Implications & Analysis

Key Takeaways

- Best in Class enterprises outperform their peers with adoption of service order management procurement technology and reverse auctions to manage telecom spend.
- Industry Average and Laggard companies identify more billing errors, but their success rate is lower than the Best in Class.

This year's survey shows an increase from 54% to 79% of our respondents indicating they have a formal TTCM program in place. Best in Class performers report they have had a program in place longer than Industry Average and Laggards (Figure 6). However, this year we find longevity of program is not what distinguishes Best in Class from all others. The key factor that separates Best in Class from the others is the amount of telecom spend that is managed through the program. Our benchmark shows the leaders manage 90% or more of their telecom expenses. The rest of our survey respondents proactively manage 67% of their wireline expenses and only 57% of their wireless expenses.

Figure 8: Program Tenure

Source: Aberdeen*Group*, November 2006

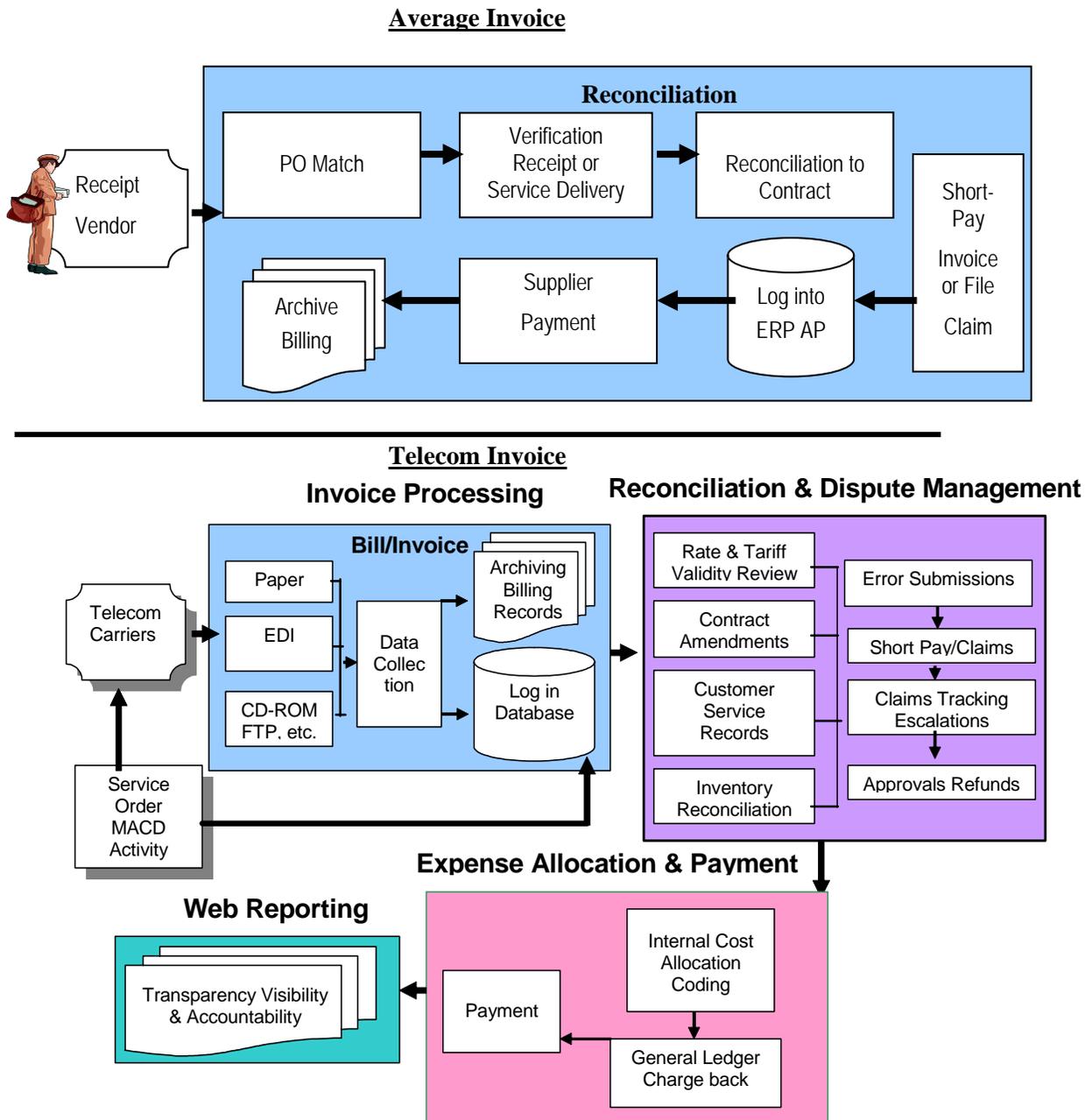Best in Class outperform their peers in:

- Labor savings and process efficiencies from implementing business process outsourcing or software for invoice processing
- Avoidance of late payment penalties
- Success rate for audit claims and the percentage of expenses secured as refunds
- Gains after implementing service order management software.

Understanding Invoice-Processing Expenses

The average Fortune 500 Company processes invoices at a cost of $28 to $34. These costs reflect the cost to process an average invoice. The standard process would include receiving an invoice and matching it to a purchase order, receiving check-in or service contract, comparing the price to contract and paying the invoice.

Table 4: Understanding Invoice Processing Expense

Average Invoice

Reconciliation

Receipt Vendor → PO Match → Verification Receipt or Service Delivery → Reconciliation to Contract → Short-Pay Invoice or File Claim

Archive Billing ← Supplier Payment ← Log into ERP AP ← Short-Pay Invoice or File Claim

Telecom Invoice

Invoice Processing

Bill/Invoice

Telecom Carriers → Paper, EDI, CD-ROM FTP, etc. → Data Collection → Archiving Billing Records / Log in Database

Service Order MACD Activity

Reconciliation & Dispute Management

Rate & Tariff Validity Review
Contract Amendments
Customer Service Records
Inventory Reconciliation

Error Submissions → Short Pay/Claims → Claims Tracking Escalations → Approvals Refunds

Expense Allocation & Payment

Web Reporting

Transparency Visibility & Accountability ← Payment ← Internal Cost Allocation Coding → General Ledger Charge back
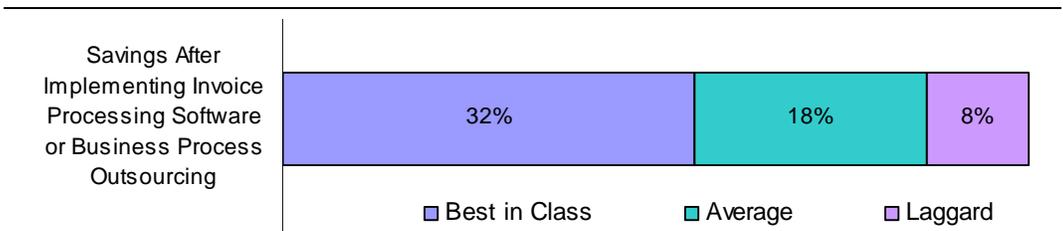
Source: AberdeenGroup, November 2006

Table 4 highlights the dynamics and complexity that make managing telecom invoices significantly more costly:

- There are a range of different billing formats (Paper, EDI, CD-ROM, FTP, etc.) that must be processed.

- Enterprise must deal with a wide range of items on the invoice (Billing Account Numbers, Circuits, Taxes, Access Circuits, PVCs, etc.).

- There are fixed charges, items that are billed based on usage, mileage, the time of day the service is used etc.

- The network inventory is changing due to MACD activity and contracts only contain part of the information needed to validate billing.

- There are Master Service Agreements, Service Level Agreements, amendments to contracts, Customer Service Records (CSRs), and other items that must be validated to ensure the pricing is accurate.

- All of the issues highlighted above make for a complex dispute process with complex timelines and requirements for documentation to support claims.

A traditional Accounts Payable system can manage most invoices, but telecom invoices present unique challenges requiring specialization and added costs that are not reflected in the $28 to $34 cost to process a typical invoice. Costs to process telecom invoices average $63-$70, but all of these figures are subject to a degree of variability based on the line items on the invoices, thoroughness of the validation process, steps in approving the bill and other variables.

Labor savings for invoice-processing is an area that often gets neglected. These savings are often considered "soft" dollars. Aberdeen has looked at this from the perspective of the cost to process an invoice and developed calculations from the number of invoices that are processed and the cost to process an invoice. For this survey, we have asked end users for their estimates of what they actually saved through business process outsourcing or the adoption of software.

Figure 9: Invoice-Processing Savings

Source: Aberdeen*Group*, November 2006

A manager industrial manufacturer stated, *"Our labor savings came from the lower costs of outsourcing, but we didn't lay the employees off. We decided to have them shift from tactical functions to some areas where they are adding more value going after new ways to cut our expenses. Right now I have them working on a wireless project."*

Late Payment Penalties

In terms of the actual percentage improvements, some of the advances seem small. For example, with late payment penalties, Best in Class companies report that they pay 1.9% of their overall expenses, while Laggards pay 3.5%. However, the actual impact of late payments is more significant. First, top line managers need to realize that they are likely to be paying these fees; 65% of our benchmark report paying late payment penalties. No doubt, some very large enterprises negotiate extended terms, but more often penalties are often missed in the fine print in the contract.

Best in Class enterprises are paying 1.9% of their overall expenses in late payments while laggards incur fees of 3.5%. On an average spend of $30,000,000, this equates to $1,050,000 (Table 5). It is important to recognize that many of these additional costs do not translate to simple calculations. Factoring the compounding effect of paying late payments over several months with the compounding effect, the actual impact is much higher. Also the effective savings from acting is higher if one considers redeploying these funds to reduce corporate capital requirements or putting the funds to work in an investment at today's interest rate of 5%. Conventional approaches to managing costs do not focus on this area, but they should because the costs add to overhead and impact relationships with carriers. Service disruptions and uncontrolled service disconnects are another related area that hits the budget in ways that are more difficult to quantify. These costs point to the cost justification and cost benefit to business process outsourcing, hosted solutions and software to automate the process and reduce late payment penalties.

Table 5: Small Improvements Add Up

	Best in Class	Average	Laggard	
Late Payment Penalties	1.9%	2.8%	3.5%	2.9% weighted average
Impact on $30,000,000 Spend	$559,091	$847,059	$1,050,000	

Source: Aberdeen*Group*, November 2006

Audit Trends

This benchmark highlights a decline in billing errors that are found. Historically, Aberdeen has found survey respondents reported error rates that ranged from 7% to 12%. In the past year, we have found the savings from errors have declined. Part of this may be due to declining error rates, but it is also comes from the impact of TTCM programs. Once historical errors have been corrected, TTCM programs proactively identify errors in the first month. In the past, there was a cumulative impact from errors that kept growing

because they were not identified in the first month. So an error that is not found after 10 months will lead survey respondents to report significantly higher audit findings then a survey respondent that finds the error in the first month.

This year's survey data now provides more findings for errors that are identified, success rate, and the actual net percent of expenses that are secured as refunds. Best in Class may identify fewer errors, but their 78% success rate for disputes is higher then average and laggards win ratio. Best in Class are able to recover 3.5% of their spending as refunds. for billing errors.

Figure 10: Audit Findings, Success Rate & Ultimate Savings
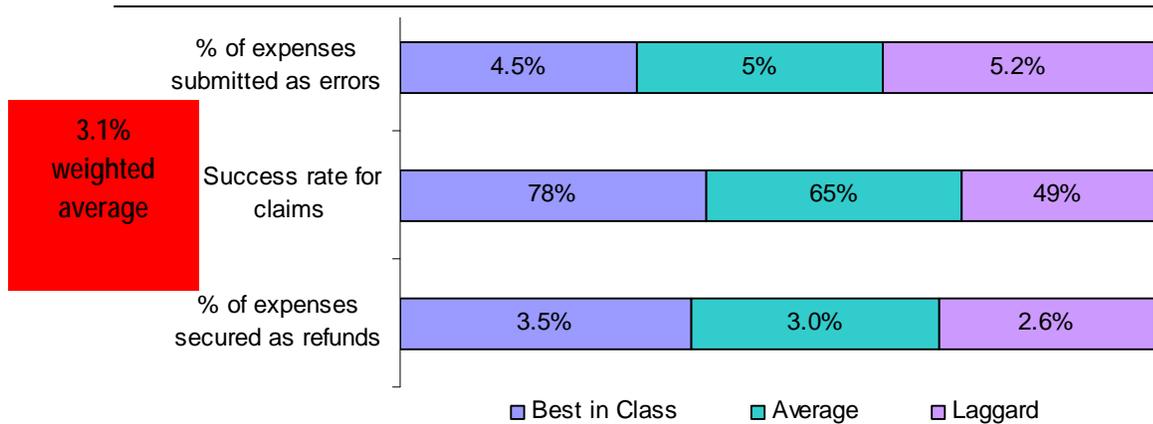
Source: Aberdeen*Group*, November 2006

A software end user at a Midwestern bank said, *"Documentation used to be a real problem. Now we don't find as many errors, but we have the documentation for what we do find which leads to more wins when we file disputes."*

The Cost of Not Acting

Savings reported by our benchmark also include sourcing through reverse auctions, professional services, audit, and cost avoidance through promoting greater accountability through chargeback. While the preliminary data from reverse auctions shows better results compared to consulting services limited adoption prevents us from drawing definitive conclusions. In addition, the results do not provide baselines to compare original rates to the results that are achieved.

**Figure 11: Telecom Reduction Savings Categories**
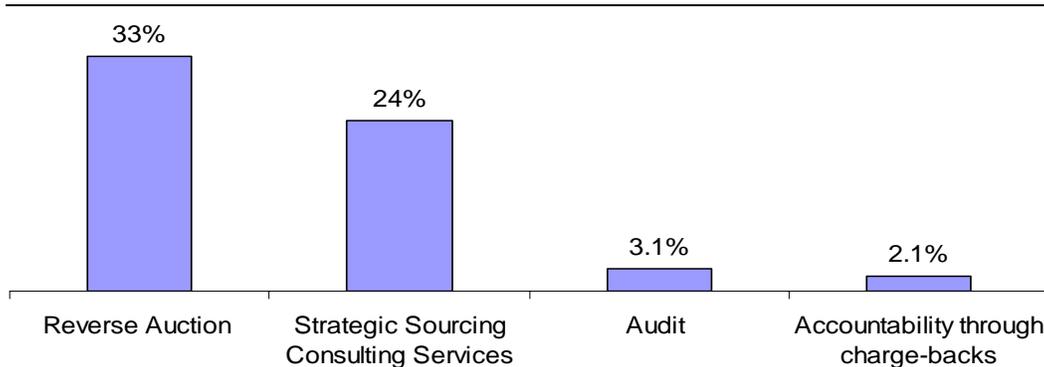
Source: Aberdeen*Group*, November 2006

Aberdeen's report on *The CFO's View on Procurement* shows that CFOs believe that only 34% of projected procurement savings, on average, are realized. Whereas sourcing and procurement managers believe that 77% of the savings are realized. Procurement officers believe that nearly a quarter of the savings, or 23%, are never realized (Figure 12). An automated program that reconciles invoices to the contracts as they are processed can address the gap between implementing the negotiated contract.

Figure 12: Estimated Percent of Projected Procurement Savings Booked
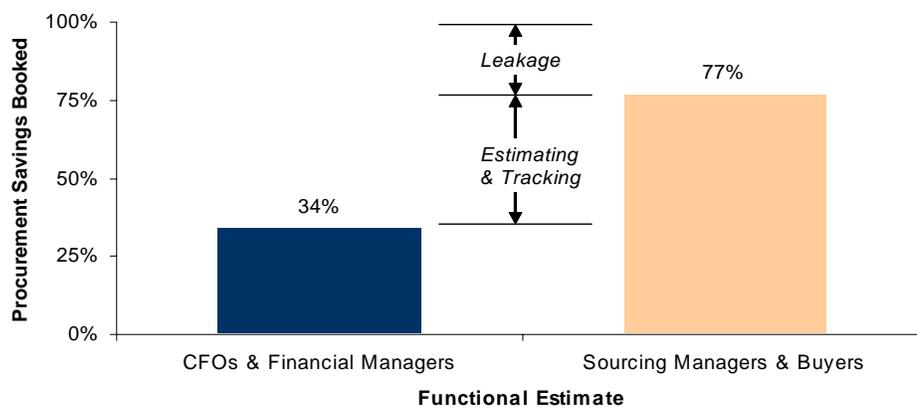
Source: Aberdeen*Group*, November 2006

There are many different paths that enterprises can pursue in managing telecom costs. **Process improvements** through leveraging software or business process outsourcing for invoice processing and service order management will deliver cost savings for labor and operational expenses. **The ability to pay invoices on time and reduce late payment penalties drives overall reduction** in telecom costs. **Telecom billing errors and optimization of services** continue to be the most common approaches to reduction, but the Cost of Not Acting findings in Table 6 highlight the value in pursing all areas. In today's continued deflationary environment, **incremental sourcing gains** through reverse auctions and consultative sourcing services produce significant incremental cost savings. Much depends on where you start. Dramatic gains are unlikely to be repeated for the same contract each year, but the savings have proven to be worthwhile. Finally, there are

gains from demand management and reduction of unfettered consumption of services. Allocation charge backs and reporting are effective ways to promote transparency and accountability for consumption of services.

Savings from one area will impact another area. For example, an environment with large volume of MACD activity may lead to billing errors for inventory that has been disconnected or forfeited savings from process breakdowns and failing to disconnect services that are no longer needed. Maverick spending by regional offices will cause leakage in terms of sourcing gains that are not realized. Ultimate savings depend on where you start, but these categories all point to the cost of not acting to ensure telecom costs are managed. Each dollar saved goes directly to the bottom-line.

Table 6: The Cost of Not Acting

(Calculations are based on survey average of $30 million in annual spend and translation of data and survey responses)

Costs to Manage Spend	Average	Savings
Invoice-Processing (1)		**$473,817**
Service Order Management (1)		**$314,083**
Reduction in Telecom Costs	Average	Savings
Late Payment Penalties	**2.9%**	**$870,000**
Audit	**3.1%**	**$930,000**
Sourcing (2)	**28.5%**	**$2,137,500**
Reduction through Chargeback Accountability	**2.1%**	**$630,000**
Potential Net Impact (3)		$5,355,400

Source: Aberdeen*Group*, November 2006

(1) The estimate for cost savings is based on survey respondents' estimates for invoice-processing head count reductions and average loaded costs per employee of $44,869.

(2) For this example, we have taken a weighted average of 28.5% for the savings from reverse auctions and professional services. Unless all services are sourced at the same time, sourcing will only impact a portion of the overall $30,000,000 spend. Therefore, the calculations are based on ¼ of the overall $30,000,000 spend.

(3) All numbers are averages and each item is interrelated. Sourcing activity will reduce the costs, which means the savings for telecom costs will be reduced.

The cost of not acting is real. **Enterprises are forfeiting 12% to 18%, if they do not have a proactive approach to cost management that leverages technology and process improvements.** Every dollar brought under management, drives savings to the bottom line.

Chapter Four:
Recommendations for Action

Key Takeaways

- The cost of not acting is real. Proactive enterprises save 12% to 18%, by leveraging technology and business process outsourcing to drive process improvements.

- To achieve Best in Class results, enterprises take a centralized approach with clear metrics to ensure focus on TTCM programs.

- Technology solutions, through third-party business process outsourcing, hosted applications or licensed software, are critical to automate invoice-processing, ensure contract compliance, asset management and drive visibility into spend.

Cost reduction remains an important factor in improving corporate profitability. Spend management may not have a triggering event to rally an enterprise to act the way government mandates. TTCM involves many areas often handled by internal groups that need to coordinate their activities and strategies. Management of the lifecycle for telecom expenses requires knowledge to understand how things are interrelated. Gaps in one area can cause problems in other areas.

Aberdeen recommends the following strategies for best results:

Laggard Steps to Success

- *Below-average performers must centralize management of telecom expenses.*

    - Laggards should start by automating invoice-processing and work to reduce the cycle time from receipt to payment of bills.

    - Centralize telecommunications procurement with a service order management system. Procurement tools can streamline MACD activity and drive compliance with corporate wireless programs.

    - Aggregate all telecom expenses with an invoice-processing system in the next 12 months through business process outsourcing, hosted or licensed software. The focus should be on streamlining labor-intensive processes and reducing late payment penalties. Enterprises that do not have a streamlined process to identify missing bills and get them paid in a timely fashion are faced with uncontrolled service disconnects. The threat of disconnected services is real and leads many Accounts Payable departments to focus on the transactional aspects of paying bills instead of looking at the process.

    - Partner with your Accounts Payable department to identify payments for services/billing that is not centrally billed and proactively managed.

- Bill validation for Laggards will initially focus on threshold audits that flag variances in billing, duplicate invoices, slamming (when your provider has been switched without your approval) and cramming (charges for services you never ordered, authorized, received, or used)

- Create transparency for telecom spend with expense charge backs and web reporting to get visibility into spending

Benchmarks for Laggards to Improve Their Standing

- *Select three to five metrics to track telecom expenses (below are some examples)*

  o Monthly telecom expenses by supplier

  o Spend per employee/department for voice, data and wireless services

  o Total expenses by vendor

  o Volume of invoices processed

  o Percent of billing received electronically versus paper

- *Promote your programs with wins and continue to educate your executives on the benefits of the program*

  o Each dollar saved goes directly to the bottom-line

  o Enterprises can save from 12% to 18% on every dollar brought under management

Continued executive support will also aid in increasing end user adoption. Users who feel like they are part of a program that has executive attention are more likely to participate actively and promote the program within the organization.

Industry Average Steps to Success

- *Industry Average enterprises should focus on asset management and optimization of network inventory.*

  - Add system capabilities that will extend visibility into network assets.

  - Work to tie provisioning MACD activity with billing and contracts and automate billing reconciliation with your inventory. Physical inventories can help identify lines that are not installed, circuits that have no cross connect, and other services that are not working properly. These inventory issues can be used to obtain refunds and reduce future expenses. Invoice-processing software should have special contract pricing entered into the system to provide line item audits of billing.

  - Improve your competitive framework with RFPs that create a competitive environment for carriers. Average performers find reverse auctions for sourcing help to compress timeframes to negotiate contracts.

  - Average performers should use employee records to reconcile wireless expenses to ensure services are discontinued when employees leave the enterprise.

Benchmarks for Industry Average to Improve Their Standing

- *Select metrics to track telecom expenses (below are some examples)*

    o Identify the costs to process an invoice from receipt to payment

    o How many people handle an invoice before it gets paid?

    o What steps have been taken to reduce number of invoices?

    o Identify late penalties for delays in processing and approving invoices

    o Look at costs to provide detailed allocation charge backs

    o Create a centralized approach to managing contracts

    o When are individual contracts up for renewal?

    o Create tracking for contractual Minimum Annual Revenue Commitments (MARCS)

Best in Class Next Steps

- *Add system, people and/or process capabilities to manage telecom.* Complex items that require configurations, engineering or collaboration with subject matter experts often go beyond standard e-procurement systems. Providers are building out their product functionality to handle many of these areas. This often includes business process expertise that means you could outsource all or part of a spend category.

- *Expense chargeback allocations should provide reporting to individual user.* Individual charge backs will help drive individuals to see the impact of their actions on expenses. Our benchmark reports savings of 2.1% for this level of detail. As one IT manager at a pharmaceutical company stated, *"I hate to use fear to enforce cost reductions, but it works. When people know their calling activity is being monitored they cut back, and the impact across our company from this initiative was pretty dramatic the first few months."*

- *Implement an accrual process.* Review how new service orders and other telecom expenses are being accrued. Many enterprises double count future costs and use inflated estimates because they do not have good visibility into their spending. Above-average performers should reduce the drag on finances that comes from poor accrual estimates. This is not an easy process because network inventories are constantly changing and pricing is subject to complex variables with tariff issues and amendments. Above-average performers can be on the cutting edge leveraging their entire spend (local long-distance and wireless) with carriers to create a stronger bargaining position in pricing discussions.

- *Above-average TTCM performers should think globally.*
  Most TTCM programs struggle to centralize their domestic spend, above average performers should seek to look at their telecom expenses in other countries. Domestic programs for sourcing, invoice-processing, expense allocations, procurement and reporting should be applied to international expenses.

Benchmarks for Best in Class

- *Select metrics to track costs associated with managing telecom expenses:*

  o Monthly budgeting of current charges to forecast and prior periods

  o Spending for specific services: wireless voice and data average per employee, LD actual cost per minute, T1s, etc.

- *Benchmark yourself against other organizations with similar spending and look across industries to see what others are spending.* Best in Class organizations go beyond their own internal metrics may not set effective goals. Use the data from this benchmark to see how you compare. KPIs must continually be reset to establish new stretch goals.

Procuring TTCM Services

- *Licensed software or On-Demand, ASP and Software as a Service (SaaS) may be good options for enterprises seeking to do more of the work themselves.* If the resources are available, you may want to manage the TTCM program with your own staff. Managing the program internally means there are no third parties interpreting your needs. Your enterprise has direct control over staffing for the project, salary, and retention programs. Vendors also offer hybrid models in which they host the software and load billing into the software. This can provide a critical foundation and free your resources to focus on the higher value areas.

- *Outsourcing may be a quick, low-risk way of ratcheting up your TTCM performance.* Telecom requires people with specialized knowledge. Many enterprises find they do not have the people, have problems retaining workers, or do not have the resources to manage telecom internally. A firm that specializes in outsourcing should be able to drive significant benefits from economies of scale. Specialists are able to apply what they learn from each client's project and share best practices across all their clients.

Best in Class enterprises distinguish themselves from Industry Average and Laggards by proactively managing all or close to all of their telecommunications expenditures. In addition, they are applying a comprehensive holistic approach with a system that pulls data together, drives a structured workflow, and encourages collaboration among different groups internally.

In conclusion, TTCM can provide real benefits in terms of cost savings. These cost savings can be directed to bottom line profitability. The savings can also be used by IT to shift funds from the operations budget to special projects that drive innovation for the enterprise. The savings are real, but you must *act* to capture them.

Author Profiles

Joe Basili
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Joe Basili is a recognized expert in category spend management. As research director for the Global Supply Management practice he specializes in total telecommunications cost management, contract labor and travel and entertainment. Through fact-based research he researches and publishes reports on best practices for how organizations can optimize their telecommunications network costs, operations, and procurement. His experience includes marketing, sales and operational leadership roles with Control Point Solutions, Teldata Control, Frito-Lay, Honey Fashions and Crown-Zellerbach/James River. He graduated from Vanderbilt University with a double major in Economics and Political-Science.

Vishal Patel,
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Vishal Patel focuses on the use of technology in the global supply management arena. With the rise of globalization, outsourcing, and government regulations Patel is researching the role software solutions play in making processes such as contract management, strategic sourcing, and overall supply management more efficient and value-adding in this ever-changing environment.

In recent years, contract management has come to play an important role in supply management, with companies increasingly wanting more control and visibility into their supplier and customer contracts. Patel is currently focused in this area and will be researching enterprise strategies, processes, systems, and performance in managing and optimizing both supplier and customer contracts.

Patel has a manufacturing and operations background, largely in the consumer products industry. He worked previously as an operations/financial analyst focusing on strategic sourcing and procurement as well as supplier contracts both locally and internationally. He brings a combination of analytical abilities, hands-on experience, and a global perspective to Aberdeen.

Vance Checketts,
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Vance Checketts is a recognized expert in the areas of procurement and supply management with a deep background in the application of technology and the underlying business process. Prior to Aberdeen he was at Oracle where he was responsible for the development and sales support of their procurement applications. Prior to Oracle, he held senior roles managing direct and indirect procurement. He has lectured and published with various industry organizations, including IFPSM, ISM, and Haas School of Business at UC Berkeley. He holds an MBA from Brigham Young University. He oversees and contributes across the entire scope of Aberdeen's Global Supply Management research team.

Appendix A:
Research Methodology

T his research effort aimed to identify best practices for total telecom cost management solution selection and provide a tactical handbook for enterprises considering business process outsourcing, software and hosted (ASP, On Demand, SaaS) solutions. It draws on the following Aberdeen Group research activities:

- In September 2006 Aberdeen assessed the TTCM strategies and implementations of leading enterprises of all sizes in multiple industry sectors. Selection approaches and criteria used by these enterprises are reflected in this report.

- Aberdeen conducted a benchmark survey between November and December of 2005, and a wireless benchmark in January and February of 2006 assessing the strategies and technology approaches of more than 200 enterprises, as part of its *Best Practice in TTCM and Wireless Benchmarking* initiatives. Aberdeen supplemented these research efforts with more detailed telephone interviews with additional enterprises.

Solution providers recognized as sponsors of this report were solicited after the fact and had no substantive influence on the direction of the *Total Telecom Cost Management Market Landscape and the Total Telecom Cost Management Solution Selection Report*. Their sponsorship has made it possible for Aberdeen *Group* to make these findings available to readers at no charge.

Appendix B:
Related Aberdeen Research & Tools

Related Aberdeen research that forms a companion or reference to this report includes:

- *Verizon Business Opens eBonding Portal with Total Telecom Cost Management Suppliers Market Alert,* (October 2006)

- *The Total Telecom Cost Management Solution Selection Report,* (September 2006)

- *Total Telecom Cost Management: Savings Are Just Part of the Picture* (September 2006)

- *The Wireless Costs and Performance Benchmark Report* (March 2006)

- *Procurement Contract Benchmark Report* (March 2006)

- *CPO's Summit: $1.46 Trillion On Tap* (November 2006)

- *Source-to-Settle: Compliance Clues for the CFO* (October 2006)

- Aberdeen's 2007 Global Supply Management Research Agenda

Information on these and any other Aberdeen publications can be found at www.Aberdeen.com.

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