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Better Management of Telecom Expenses Yields Significant Savings

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Organizations can routinely save more than 10 percent of their annual telecommunication expenses by systematically checking their carrier bills against equipment and services in use. Best practices include implementing telecom expense management packages.

WHAT YOU NEED TO KNOW

Telecom expense management is about achieving savings and control of telecom spending by using automated tools and business processes. CFOs should make themselves aware of the cost control and savings possible from TEM. CIOs must embrace TEM for resource management and network configuration control. Network managers will enhance their role by evaluating billing validation and engaging in its operations to save money, bring telecom into control and demonstrate delivery of their fiduciary responsibilities and their stewardship of the networking role.

STRATEGIC PLANNING ASSUMPTION(S)

Through 2008, TEM will remain difficult to source, but annual savings of more than 10 percent will be achieved for organizations that persist with best practices (0.8 probability).

ANALYSIS

Telecom Expense Management (TEM): North America has a long history of competition between carriers and, more recently, between network service providers of all sorts. This has meant that every business has had to keep its own telecommunication records to competitively bid and contract its networks. Outside of North America, telecom deregulation has been under way for less than five to 10 years and most businesses have had a lazy habit of relying on the previous monopoly player to keep their telecom records and billing information. Invoices tended to be paid without good tools to ensure their validity and accuracy.

It came as a shock to most businesses in the early days of telecom competition that there was now a choice in carriers, which was not possible before, and to competitively bid their networks most businesses had to prepare and control their own databases of network topology, lines in service, use and payment processing. Australia is a typical example of an economy where businesses were forced to find their own means of monitoring, controlling and managing telecom expenses in the early 1990s, when full deregulation was announced to begin in 1997.

This wake-up call did not occur in the same way in North America because a long history of competition between carriers meant that businesses often kept multiple carrier bill recording systems and typically managed a smaller internal database that focused on telecom and data networking asset management.

Blind Spots We Have Seen: CFOs have the greatest need to know about the savings and efficiencies available from TEM. Most are stunned to discover that their business has been relying on the dominant carrier's billing systems as the central source of database management. It's difficult to think of any other industry where one of the major suppliers keeps the "scores" and de facto has preserved strategic control of the clients' accounts for so long. CIO involvement in TEM is essential for integration with network asset management and configuration systems.

Network managers know that errors in billing are common, but they often have to rely on the CFO's department rather than the CIO's for database provision and control. The net outcome of records being out of date is that unused lines and billing errors usually favor carriers rather than user organizations by as much as two to one. Audits easily find 5 percent to 8 percent savings by resolving billing errors; however, the high volume of intricate detail contained in telecom billing makes human checking unwise, unreliable and unproductive. TEM tools are needed.

TEM Defined: TEM tools facilitate the control of acquisition, operation and support of corporate telecom assets and network services. The coverage typically includes voice and data communications as well as cell phones. A good TEM package will manage services, equipment, installations and maintenance, and support monitoring of essential contract provisions — particularly service-level agreements (SLAs) — and performance penalties. TEM's main focus is on telecom asset deployment and its billing administration.

A sound TEM package will integrate well with business processes and support procurement, as well as finance protocols as part of monitoring network service provision and payments. In Australia, PBX is well covered in TEM solutions capturing trunk and line moves, adds and changes of handsets and devices for time division multiplexing and IP telephony.

How to Approach TEM: In North America, TEM is enjoying reborn popularity and sits near the "peak of inflated expectations" in Gartner's Hype Cycle (see "Hype Cycle for Networking and Communications, 2004"). This position will remain through 2005 and 2006, but in other markets (especially Australia) where relatively recent and rapid carrier deregulation has occurred, demand for new TEM systems was discovered early in the 1990s and promoted by a few small specialist vendors that are now targeting global markets.

CIOs and CFOs should ask a few questions about the telecom billing management processes of their businesses. Most will discover a TEM blind spot. More than half of the businesses that Gartner encounters are unaware of TEM, its role, potential savings, benefits or contribution to governance compliance.

The most-productive ways to use TEM packages are to obtain carrier billing refunds and for support in contract negotiations. Most large organizations don't know their telecom spending in a high-level summary sense or at a segmented or detailed level. There is a usually a gap between the total enterprise spending according to financial reporting and the aggregate of detailed billing records. Resolution of this gap is a substantial, but usually profitable, task. The regulatory and compliance requirements of the U.S. Public Company Accounting Reform and Investor Protection (Sarbanes-Oxley) Act of 2002 affect many businesses outside of North America, especially those trading in or with multinational companies. Tools such as TEM then become somewhat obligatory to demonstrate financial control and delivery of fiduciary responsibilities. Normal audits are usually intermittent and static. Properly installed TEM systems deliver the ongoing dynamic compliance control that has become imperative.

TEM should be treated as more than a simple audit aid. It needs to be part of a permanent suite of telecom and network management tools leveraged to manage telecom planning, procurement and operations life cycle. Look for hard (direct financial) and soft (broader corporate productivity) savings. Expect to understand phone use, obtain detailed control of spending, benefit from a cost-reduction program, leverage customized reporting, and improve your business's competence in the carrier refund claim process.

How TEM Should Be Exercised: Although initial baseline audits will readily find 5 percent to 8 percent billing error in telecom invoices, the net present value of ongoing savings can be more substantial. Vendor claims of 20 percent to 30 percent savings in the first year are possible and not uncommon in a first generation of TEM implementation; however, once the business process and databases come into permanent control, this premium usually reduces to about 10 percent savings in subsequent years. The major factors determining the potential for savings include the extent of mergers, acquisitions and reorganization activity within the business during the past year or two, the communications intensity of the industry sector and whether any primitive databases or billing management tools have been in place.

Most TEM vendors will not target end users with a minimum telecom spending of less than $5 million per year in North America or $2 million per year in Europe or Asia. The prime market for

TEM package suppliers is to become embedded in major facility management systems, where the large scale is likely to yield good savings for clients. The small to midsize business (SMB) user market can benefit from some of the TEM packages that are tailored for a high degree of user self-installation and operation. TEM vendors should be evaluated as either "product" or "managed service provider" categories.

Characterizing Popular TEM Systems: The most-effective TEM solutions sold as software packages or as professionally supported business services cover these tasks:

- Telecom billing audit (for accuracy, validity)
- Invoice management (payment approval, timing and SLA adherence)
- Procurement (new services and work orders) and contract negotiation baselines
- Order placement, monitoring provisioning progress, inventory and asset management
- Use chargeback to business units
- Support for user self-service and local administration under contract head agreements and business protocols

Prospective or new TEM users must satisfy themselves about the role that is proposed to be played. Most vendors (see Note 1) are independent software tool developers, and many focus on call accounting, which is only a third to a half of total telecom spending. Increasingly, the TEM solution may come from a facilities manager or network service provider, or even as an adjunct service from a telecom rates broker. The various roles are described in "Telecom Expense Management Offers Sourcing Opportunities for ESPs," "MSS*Group Acquires Telecom Expense Management Business" and "An Enterprise Must Own Its Own Configuration."

View Carriers Jumping Into Telecom Billing Audit With Caution: Their problem is real. Carriers can't get past billing anger from their customers to sell new services. The carriers' approach of fixing outstanding and ongoing billing issues using TEM is sound in its business logic, but telcos have little to no credibility as reviewers of bills that they may have issued because of their clear conflict of interest. Solutions sourced from carriers need to be at "arms length" from the carrier's billing department.

Learning Experience From Nascent Markets: The TEM industry is too small in Australia and too severely fragmented in North America to be recognized and prosper by itself. Enterprise awareness is so low that it is unlikely to achieve critical mass through its own marketing efforts. TEM vendors are more likely to be used in situations where they are transparent to end users and will develop some of their best business via facility managers such as IBM, EDS or Computer Sciences Corp. Most TEMs are small, creative and energetic with a revenue turnover of only a few million dollars per year and typically 20 or so staff, which explains why users who finally understand the TEM problem report that TEM vendors are hard to find (see Note 2).

Evaluation Criteria: When selecting a TEM vendor, ensure that its approach fits your corporate goals; Sarbanes-Oxley compliance is mandatory; an audit trail is delivered; and that the fit with management processes and technology platforms is appropriate.

- The vendor should be reviewed for its company health, its strategic directions and its proven ability in execution. In practice, this usually means partnering with a larger ally.
- The vendor's talent in its staff, partner and carrier relationships is critical for in-house (using a software product) or outsourced TEM solutions.

- Review the suite of TEM products, services and pricing strategies.
- Reference check the telecom carrier, enterprise process knowledge and expertise with previous clients.
- See that the TEM aids benchmarking and SLA management. Discover how TEM tools and technologies may be linked or interfaced to network design or optimization tools.
- Examine the software vendor's strategic alliances with facility managers, carriers and service providers.
- Multinational companies should specify international products with multilanguage and multicarrier support in multiple currencies.

Best Practices in TEM

- The rapid but uneven growth of telecom services under billing management has meant that practices tend to be ad hoc across users, with little shared learning across industries. Collaborate with other users where possible.
- The huge volume and detail of records demands automated expense management, but each TEM solution has its own billing nuances. Be aware of these intricacies.
- Use TEM to get ahead of current use and billing administration practices and strategically pursue savings or productivity opportunities by upgrading the telecom technologies or network services used.
- Use consultants to conduct gap analysis, baseline audit and initial setup; however, the ability to "self-help" will be the most productive ongoing approach for SMBs.
- Adopt a network life cycle approach using TEM. Aid business intelligence by storing information as a data warehouse to facilitate matrix views of the network and its billing that can be "sliced and diced" as required.
- Actively use TEM for risk management, network equipment vendor management and strategic telecom sourcing.
- Use TEM in request-for-proposal preparation, procurement planning and execution, contract negotiation, and SLA monitoring. Pursue expense control, contract administration, invoice collation, optimization of rate plans and checking for competitive market rates.
- List common telecom contractual practices and SLA determination via TEM.
- Use the industry or sectoral (TEM client base) benchmarking reference metrics kept by some vendors.
- Favor Web reporting for enterprise users.

Note 1

TEM Software Tool Vendors

North America

Asentinel (www.asentinel.com)

Avema Global Alliance (www.avemaglobal.com)

Control Point Solutions (merger of Broadmargin and Teledata Control; www.controlpointsolutions.com)

MSS*Group (now Vercuity after acquisition of QuantumShift and merger with Telwares; www.vercuity.com)

ProfitLine (www.profitline.com)

QuickComm (www.quickcomm.com)

RFD Systems (www.rfdsystems.com)

Symphony Services (has acquired Stonehouse Technologies and In-reality software India; www.symphonysv.com)

Tangoe (www.tangoe.com)

TelAssess (www.telassess.net)

Teligistics (www.teligistics.com)

Australia

Clarity (www.clarity.com) provides solutions to carriers and service providers

Phoneware Communications Systems (www.VXT.com.au) focused on PBX and WAN use

PricewaterhouseCoopers TAMS (www.pwc.com)

QuickComm (www.quickcomm.com)

StarNet Systems (www.starnetsystems.com.au) PBX focus

Stratatel (www.stratatel.com.au)

TSA Communication Solutions (www.tsa.com.au) PBX and WAN

Vericom (www.vericomgroup.com)

Australian Telecom Consultants: Consultel; Essential Utilities; Housley; NUS; PBX Advisory; UXC (AAS and Gibson Quai)

Note 2

TEM Issues

TEM issues are discussed in the telemanagement forum (www.tmforum.org).

Acronym Key

SLA	service-level agreement
SMB	small and midsize business
TEM	telecom expense management

This research is part of a set of related research pieces. See "SMB Networks Provide Opportunities to Upgrade and Save" for an overview.

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