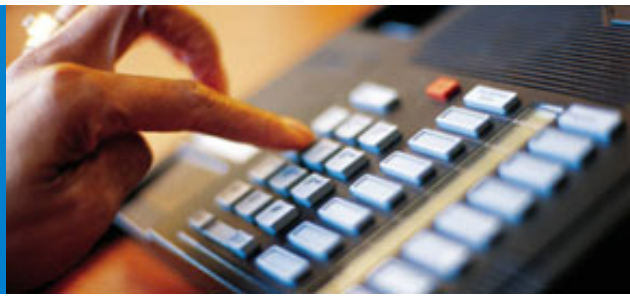
Delivering 5 Sources of Sustainable Value Through a TEM Initiative

Research Report



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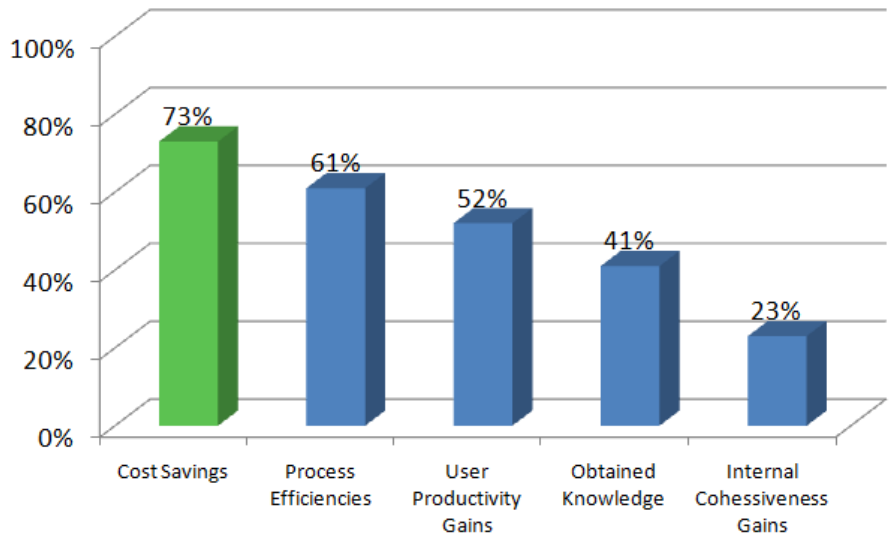
Executive Summary

Telecom expense management (TEM) is a practice that provides many benefits to the enterprise. From cost savings to operational and efficiency gains, a TEM program provides many tangible and intangible positive outcomes for the organization once established. One way to look at the benefits a TEM program provides is to consider those who currently have a TEM program and review what they would stand to lose if TEM no longer existed in their environment. It is not surprising that based on recent AOTMP research, **Cost Savings** was the obvious number one choice. An annual audit can provide a short-term win, but a continuous and comprehensive TEM program that constantly validates incoming invoices against your existing inventory and contract rates will provide optimal benefit. However, other items were also mentioned that may not get full appreciation or consideration. It is clear that TEM can also make people more efficient and productive through automation of processes and procedures.

"An annual audit can provide a short-term win, but a continuous and comprehensive TEM program that constantly validates incoming invoices against existing inventory and contract rates will provide optimal benefit."

Figure 1: Items Lost if TEM Program Did Not Exist



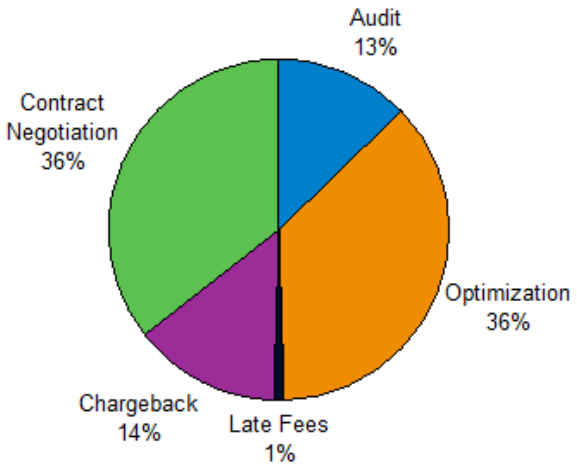
Source: AOTMP, June 2009

TEM offers real hard and soft dollar savings to the enterprise. In order to illustrate these savings, AOTMP research focused on five key telecom expense management activities (listed below):

- Expense Validation and Contract Compliance (Audit) Savings
- Optimization Savings
- Expense Allocation Chargebacks
- Contract Negotiation
- Late Payment Penalty Reduction

Overall, and based on four year average savings, TEM programs obtained the greatest savings through optimization and contract negotiation activities. Optimizing wireless rate plans based on actual usage, for instance will ensure the enterprise is maximizing its service-to cost performance. Furthermore, focus on elements outside of bottom-line pricing during the contract negotiation process such as terms and conditions, service level agreements (SLA's) and volume discounts can also be a great source of savings. Taking a proactive versus reactive approach will provide greatest benefit to those seeking an effective telecom environment.

Figure 2: Overall Average TEM Program Savings Distribution (4 Year Average



Source: AOTMP, October 2008

"By centralizing your spend into a single data repository, you are able to leverage the total size of your organization (and its telecom spend) in ongoing negotiations with vendors."

Operational, Process Efficiency and Purchasing Scale Gains

TEM programs can also contribute to operational and procedural savings for the enterprise. Reductions and redeployment of full time equivalent (FTE) resources associated with move, add, change or delete (MACD) activity, invoice processing, bill payment, and other tasks could result through process automation. There are also benefits and time savings from unifying multi-departmental processes and reducing redundant systems. Enterprises will also need even fewer FTE's if they choose a business process outsource delivery model. Finally, by centralizing your spend into a single data repository, you are able to leverage the total size of your organization (and its telecom spend) in ongoing negotiations with vendors.

" ..those who place service orders over the phone will spend over 3 times more on rework than those who use a web service portal."

Consider an organization that has hundreds of MACD's a month and are currently managing this process by contacting their carriers via telephone. Because communication is taking place in a non-automated fashion, this opens the potential for more errors to occur. Employee time is spent communicating their MACD's with the carriers over the phone, which takes considerably more time. Now envision the implementation of a TEM solution which can perform these tasks through a web portal. A process that normally takes a multiple days takes a few of hours. Previous AOTMP research indicates that those who place service orders over the phone will spend over 3 times more on rework than those who use a web service portal. For example, if you placed 100 service orders using the telephone, you can expect approximately 18 will be inaccurate and need to be reworked. Taking those same 100 service orders and now using an on-line web portal, you will reduce the number of inaccuracies to five.

It's hard to believe, but even in today's technologically savvy society, manual processes and procedures are still being followed throughout the invoice processing cycle. However, by automating these processes, organizations can achieve both visibility and productivity enhancements within the invoice processing process. For instance, utilizing electronic invoices removes paper from the process and minimizes the time required to enter invoices into queues for processing and payment and accelerates the approval process. In addition, paper invoices may only provide summary information but with granular and more detailed electronic invoices, the enterprise gains greater visibility into expenses and will utilize fewer internal resources in the process. In house telecom analysts can also convert their energy from managing mounds of paper and reconciling volumes of invoices, into a more value-added type of proactive analysis. In addition, consolidating everything into one, centralized invoice will streamline the process even further by making information more easily accessible while creating less documentation and confusion in the process.

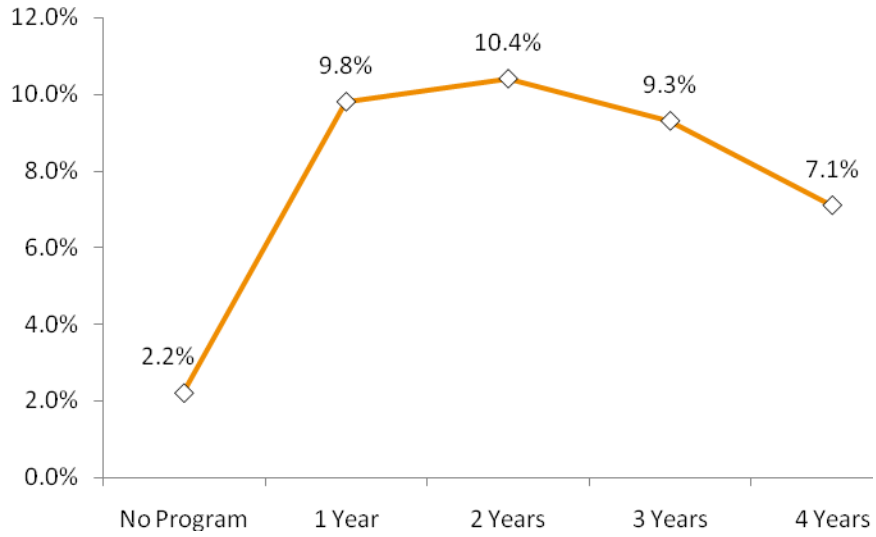
TEM programs also deliver better information about telecom expenses. This information can be leveraged for more effective sourcing, audit wins, and overall improved decision-making. While 56% of enterprises indicate that better information from TEM is a valuable metric for measuring the value of TEM programs, it is nearly impossible to assign a value to better information. Armed with detailed information regarding the expenses of the organization, department managers can make more informed decisions and recommendations to help drive efficiency within the telecom environment. With the right information provided to department managers, they may also take steps to address inappropriate consumption of communications resources. Ultimately, better information is an enabler for other areas that drive savings.

Developing a Business Case for TEM

Optimization Savings

An effective program will use business intelligence from a TEM program to identify cost-saving optimization opportunities. Savings opportunities can include analysis of toll free calling to optimize RESPORG (Responsible Organization) carriers for intralata, intrastate, and interstate calling; consolidation of circuits to higher capacity services with an overall lower cost; and optimization of wireless service plans. Pooling of wireless plans should align purchases of peak minutes to consumption so that unused peak minutes are not forfeited at the end of the month. An optimized corporate pool of wireless users will ensure a lower net effective cost per minute. This is calculated from the cost of a pool or bucket divided by the actual minutes used.

Figure 3: Optimization Savings over Time



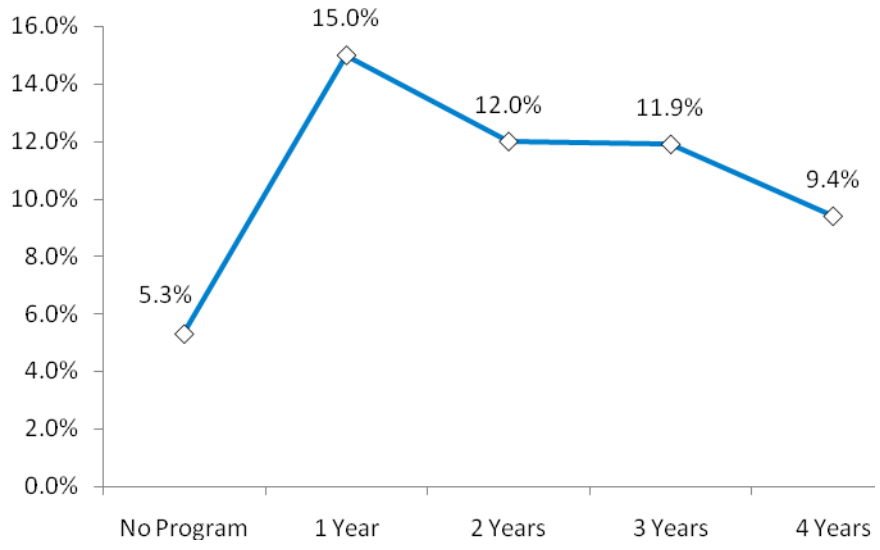
Source: AOTMP, October 2008

"Organizations that have TEM programs are able to drive three times more savings in the first year and continue to drive savings in the future."

Contract Negotiation

In a market where new technology and innovation is driving reductions in rates for telecom services, contract negotiation can be a rich source of savings. Even programs that have no dedicated TEM program report that they are able to produce savings from contract negotiation. However, organizations that have TEM programs are able to drive three times more savings in the first year and continue to drive savings in the future. A TEM program brings increased visibility into the telecom environment which results in a more educated and empowered enterprise during the contract negotiation process.

Figure 4: Contract Negotiation Savings over Time

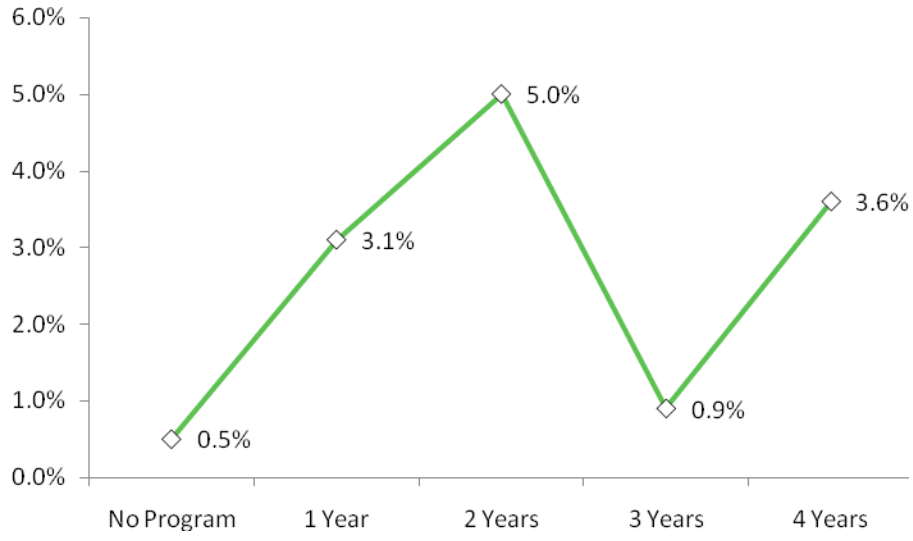


Source: AOTMP, October 2008

Expense Allocation Chargebacks

Many TEM programs expend considerable effort to generate allocation chargebacks. Previous research conducted by AOTMP, in *CFO and CIO Perspectives: A Top-Down View of IT and Telecom Management,* identified a trend in which allocation chargebacks promoted better accountability and reduction in wasteful consumption of services. The data below shows that better visibility of expenses reduces consumption of services by 5% in the second year of a TEM program. The savings may drop in the third year, but it should be noted that these savings are cumulative. The savings then rebound in the fourth year of the program.

Figure 5: Allocation Chargeback Reporting Savings over Time



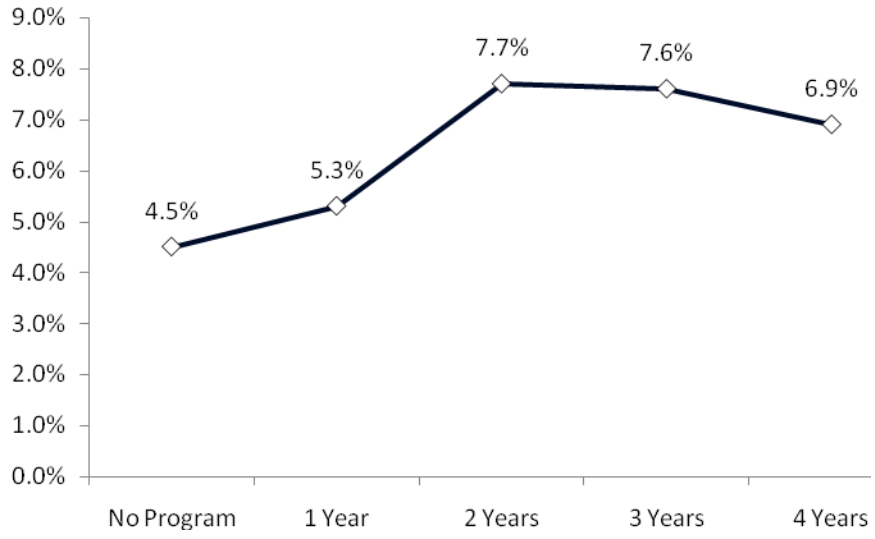
Source: AOTMP, October 2008

"In a market in which rates are declining, billing errors are more likely to favor telecom service providers."

Expense Validation and Contract Compliance (Audit)
Telecom billing is a highly complex process, complete with time-sensitive expenses (peak and off peak), fixed and metered charges, and volume-sensitive discounts. New technology, changing services, and government regulations create a moving target for telecom service providers. In a market in which rates are declining, billing errors are more likely to favor telecom service providers. Therefore, validation of billing and contract compliance activities are more likely to generate savings for enterprises. Errors include mistakes in the application of rates, tariffs, and contracts to billing. In addition, audits will find errors through the reconciliation of inventory and changes from MACD activity with billing. Line verification calling can identify services that should not be associated with the enterprise. Physical inventory validation can go one step further by finding circuits that are not functioning properly, such as circuits with no cross-connect and services that are demarcated incorrectly. Validation of taxes completes the package of savings for audit recovery activities.

The benchmark data below is derived from the billing errors that enterprises identify multiplied by the success rate for claims that are filed with telecom service providers. This approach avoids over-reporting of audit results that arises when surveys simply ask about billing errors without considering the success rate for securing refunds on billing issues. Enterprises reported the greatest savings in the second year of the program. Savings decline over time, but the savings in the fourth year are nearly 55% higher compared to enterprises that have no TEM program.

Figure 6: Audit Refunds over Time



Source: AOTMP, October 2008

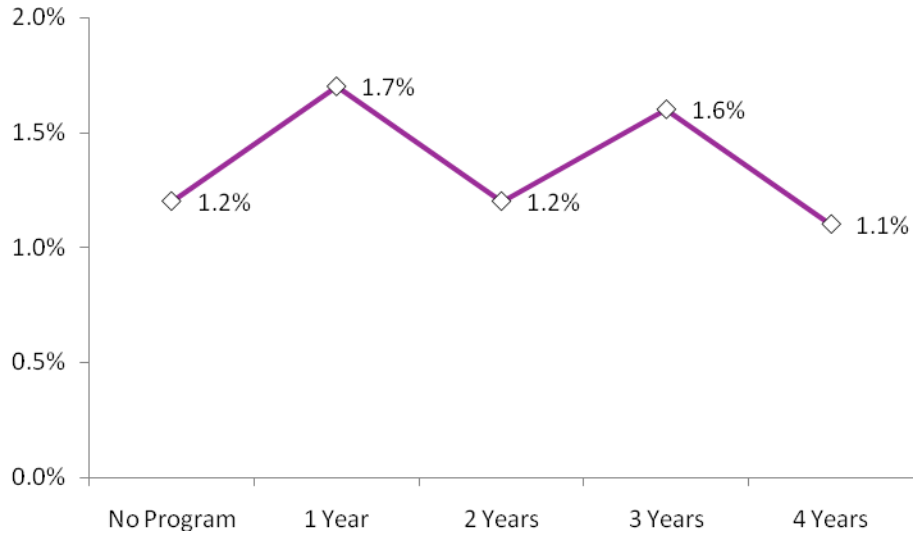
Late Payment Penalties

As previously illustrated, reducing late payment penalties represented the smallest percentage of annual savings compared to the other four activities. However, the ability to pay invoices on time does have some impact on the ultimate cost of telecom services. Over 49% of survey respondents indicate that they incur late payment penalties that average 1.2% of their overall spending for telecom services. These penalties may seem relatively small, but the effective cost is higher when one considers the impact of the current business cycle and capital requirements for most businesses.

Enterprises should work to ensure they have automated reporting to identify when bills are received, when they are batched for review, when they are approved, when they are paid, and when the payment was received by the telecom service provider. This will enable the enterprise to identify bottlenecks in the process. TEM suppliers can help in the process, but they also need to be accountable for ensuring late payment penalties are avoided.

The graph shows small variations in enterprises' records with late payment penalties to reveal how the charges actually rise in the first year of a TEM program. This could be the result of miscues as bills are transferred to a TEM supplier or it could reflect the fact that enterprises gain better visibility into late payment penalties through TEM programs. In the third year, another increase occurs in late payment penalties. The survey shows that it takes four years for TEM programs to reduce their late penalties to a level below those that do not have a TEM program.

Figure 7: Late Payment Penalties over Time



Source: AOTMP, October 2008

Successful TEM Implementation Strategies

Telecom Expense Management (TEM) is the practice of managing the full lifecycle of a telecom expense which may include inventory validation, sourcing, invoice processing, service ordering and reporting/analysis to optimize control over expenses, enterprise spending on telecom, and the operational costs associated with managing those expenses. TEM is a component within a comprehensive telecom environment management practice. As per the previous section of this report, TEM can have a substantial impact on bottom line costs and efficiencies. If selecting a TEM provider, the process warrants a thorough examination as suppliers offer different approaches for their solutions. Having the opportunity to work with a specific solution prior to purchase will ensure alignment with your business requirements rather than taking a commodity service cost-only approach.

Central to AOTMP's Telecom Expense Management Standards and Best Practices is methodology that promotes informed decision-making and success monitoring that will create intended results. The standards and best practices outline five phases:

I. Needs Assessment
II. Business Case Development
III. Business Alignment
IV. Performance Monitoring
V. Program Evolution

Needs Assessment

This initial step calls for identifying and understanding the specific organizational need(s) for telecom expense management. Documenting the current processes related to all telecom expense management activities (i.e. procurement of services and equipment, invoice processing and payment, etc) and the level of internal effort and resource required as well as related cost associated with each task is a good start to help begin to assess the requirements for the organization. What may be uncovered are numerous manual processes and inefficiencies and error-prone manipulation of telecom information. Some of the more common outcomes of the needs assessment process include:

- Establishing the benefits of a centralized inventory and invoice management process for telecom services and equipment
- Improving the efficiency and effectiveness of current business processes
- Gaining control and visibility into telecom expenditures by taking advantage of electronic data and centralizing your data in a normalized repository
- Utilizing internal resources more efficiently
- Improving the provisioning process

Business Case Development

Once the need has been identified for TEM and current telecom management processes have been outlined, the next step involves developing a business case. This is a very important step in the process, particularly in today's economic climate where if you are unable to demonstrate the ROI of the initiative, it will most likely be rejected. This step typically includes activities such as:

- Documenting current telecom costs
- Creating financial cost justification requirements and model
- Evaluating dependencies and variables
- Developing a sustainability plan
- Gaining internal stakeholder buy-in and support for the program.

Gaining internal stakeholder support, particularly at the executive level, is critical during this stage. If the appropriate support is not obtained, adequate value has most likely not been demonstrated. Stakeholders must be shown real savings if they are to find any reason to support the implementation of TEM. One goal could be to transform the department from a cost center into a profit center – an attractive proposition in difficult financial times.

Pre-Implementation Business Alignment

Aligning the components and activities of TEM is the next step in the process to ensure an efficient process. TEM activities must align and conform to each other and overall business objectives, to ensure success. Some of the more common types of business alignments include:

- Program components and costs against telecom objectives
- Sourcing, service ordering, help desk support processes
- Invoice reconciliation, dispute management and payment processes
- Asset and inventory management, and change management processes
- Performance metrics with program objectives

If implementing TEM supplier software, enterprises should also request a "trial" period where the enterprise can experience the technology first-hand prior to implementation. This period will allow the organization to assess the ease of use and intuitiveness of the application while providing benchmarks on anticipated savings. The trial will also demonstrate the ability of the application to handle your data, a critical component to a successful TEM engagement. Also, the appropriate reporting functionality and/or reports must be made available to key decision makers within the enterprise in order to enhance visibility and credibility for TEM.

Performance Monitoring

Once the TEM program is officially off the ground, performance evaluations should be made on a periodic basis to determine the effectiveness of the implementation. Some of the key areas of monitoring will include:

- Evaluate operational performance
- Evaluate financial performance
- Evaluate technical performance
- Track progress using a return on investment (ROI) model

As mentioned previously, a sustainability plan should also be developed for TEM. The value of TEM must continuously be demonstrated in order to keep executive attention while creating on-going visibility for the program. Sharing information with key stakeholders within the organization will ensure TEM stays in the fore-front, and not on the back-burner.

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Program Refinement

Finally, the TEM program should always evolve and be refined as needed. When one process does not generate the expected or anticipated results, evaluate the bottle-necks and implement process improvements to alleviate the issues. Refinement of any TEM program might include:

- Perform needs gap analysis against evolving business demands
- Evaluate technology development effects on program structure
- Justify financial change against business needs
- Evaluate effectiveness of TEM reports.

Conclusion

As previously demonstrated, TEM can provide many benefits to an enterprise. From cost savings through activities such as optimization, contract negotiation and audits to softer savings in process and efficiency gains, TEM can provide real sustainable value for the organization. An optimized TEM program will also incorporate different activities in order to achieve maximum value.

Establishing the need for TEM is the logical first step in the process. Creating the business case and gaining stakeholder buy-in for TEM while aligning TEM activities with business processes and objectives are the next steps. Finally, monitoring performance of the program while continuously refining the process based on results round out the process. If the appropriate steps are taken, and true sustainable value can be demonstrated, the enterprise can ensure a long-lasting and successful TEM implementation.

Appendix
Research References

Report: Benchmarking the Value of TEM Programs over Time (October 2008)

AOTMP conducted this survey to examine the value TEM programs provide to an organization over time. The online survey used for this report included 198 respondents across 29 different industries. AOTMP supplemented this online survey with e-mail and telephone interviews with select survey respondents, gathering additional information on telecom expense management strategies, experiences, and results.

Report: The Value of Maintaining TEM (June 2009)

AOTMP conducted this survey to demonstrate the value of maintaining a TEM program whereby avoiding the potential of being down-sized during difficult economic times and ensuring longevity and success for the program. The online survey used for this report included benchmark data from 118 enterprise professionals across 19 industries.

About AOTMP Research

AOTMP research is supported through data collected from a variety of sources. Data points are collected through enterprise and supplier benchmarking projects, training and certification events, research surveys, frequent hot topic polls, virtual conference audience polling, live conference audience polling, and AOTMP Access benchmarking events. AOTMP's data point contributors include over 60,000 IT, telecom and business professionals, supporting domestic and international enterprises and industry suppliers. Data points contributing to research are carefully analyzed using advanced statistical methods. Research findings are confirmed though test/retest validity methodology and, therefore, paint an accurate picture of the industry. The clarity and detail of AOTMP research is unmatched in the practice of telecom environment management, and AOTMP expertise translates analysis into actionable findings representative of the industry and all related industry segments.

About AOTMP

AOTMP is the leading provider of information solutions for managing enterprise telecom and IT environments. Our proprietary certifications, benchmarks, standards and best practices deliver measurable improvement in efficiency and productivity for managing wireless, voice, data and network services. From Fortune 50 companies to SMB, enterprises seeking the best return on telecom and IT services turn to AOTMP's industry research, advisory services, events, educational programs and performance management systems to achieve operational and financial efficiency.

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