

# TELECOM EXPENSE MANAGEMENT BEST PRACTICES

## “NEXT GENERATION SAVINGS”

Companies committed to a culture of excellence seemingly all look beyond the conventions of the day and seek to become the innovators within their chosen space. Ongoing stewardship of telecommunications expense and the surrounding opportunities resulting from that qualitative effort are the activities that separate poor performers from “Best Practitioners.” Such is the case for companies that take the narrow view of managing telecom expense as merely an audit and bill processing exercise versus those companies that see real opportunities for continually lowering operational expense and improving the utility of their telecommunications’ infrastructure.

Companies pursuing this broader perspective realize that savings and opportunities don’t come exclusively from sporadic invoice analysis or contract negotiations occurring every two or three years. These Best Practitioners pursue comprehensive strategies that drive opportunity and infrastructure savings each and every year. They look to strike the balance between lowest cost available and greatest utility for their respective companies.

These companies have all come to realization that their best shot at continual opportunities and savings can only come from an aggressive pursuit of three interrelated strategies. All of which are grounded in a complete and accurate accounting of their company’s telecom assets and infrastructure. The three pillars include a lifecycle contract management strategy, an infrastructure optimization strategy and an invoice and contract rate validation strategy. Practically deployed and regularly practiced these strategies take what have been modest single percentage point savings and increase the opportunity by a factor of two or three times.

The constant however for this brand of opportunity is an absolute understanding of telecom infrastructure and expense baselines. Absent of those baselines, all efforts at optimization, new contract opportunities or even expense validation become protracted exercises with mixed and at best, temporary gains.

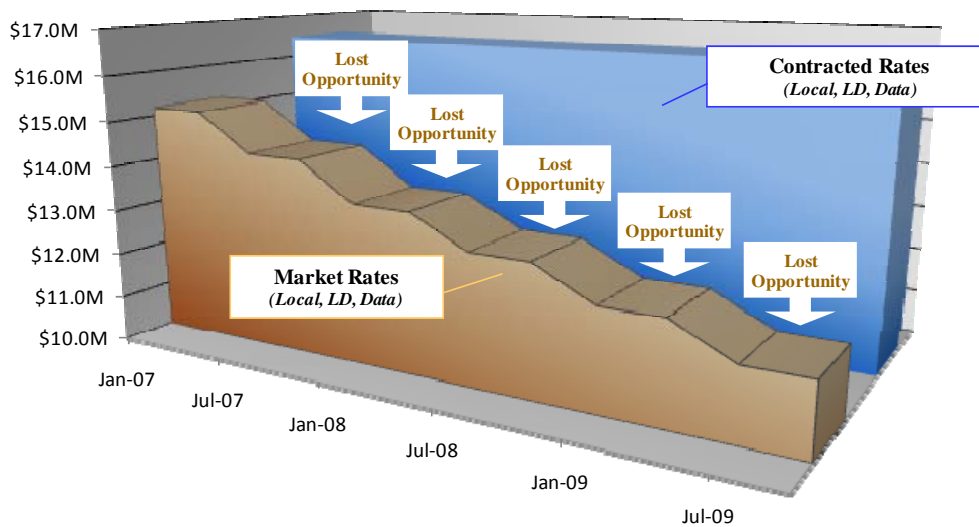
## **THE THREE PILLARS OF ONGOING TELECOM COST SAVINGS**

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Many companies within the Fortune 1,000 recognize the merits of this approach. Seeing opportunities beyond erroneous billing and the occasional contract renegotiation, these companies create annual improvements where previously they may have regarded this kind of effort as too expansive for too little reward. Their keys to the ongoing opportunities within telecom savings are:

## CONTRACT MANAGEMENT LIFECYCLE STRATEGY

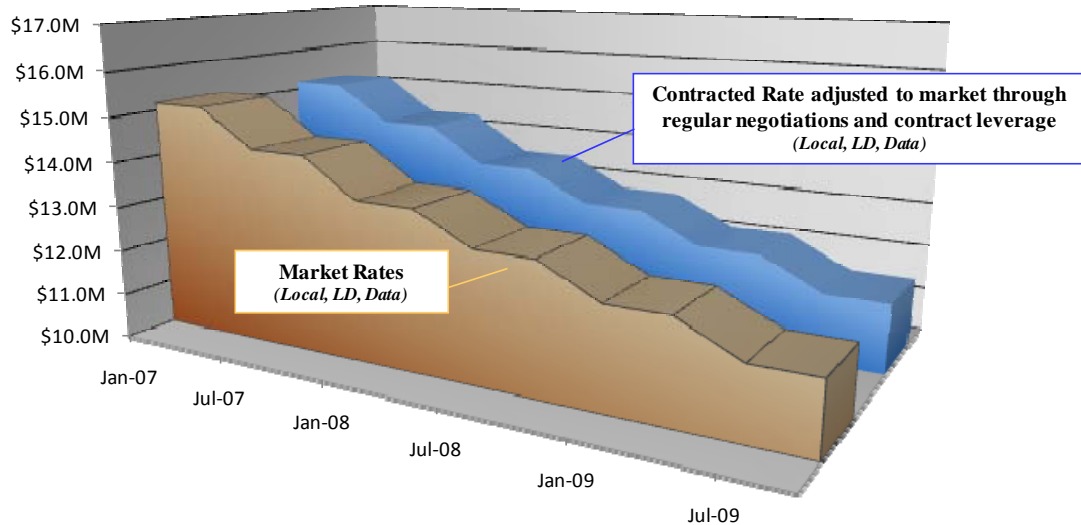
A proactive and successful contract management lifecycle strategy (CMLS) is an approach that requires ongoing management of the contracts versus the more standard approach of negotiating a contract in the 30<sup>th</sup> month of a three year agreement. With close to 20 years of experience working on enterprise telecom contracts we've known for a long time that rate and pricing erosion takes place almost immediately after the execution of a new agreement. Rate erosion is influenced both by market pressures and the supplier's own efforts to reduce their internal cost structure.



The challenge for companies as posed by this “erosion” is to mine the opportunities for contract savings whenever they occur, regardless of the timing of a “running” contract.

The two instruments companies can rely on to secure these opportunities are contract leverage and a keen ongoing awareness of “best in class” rates and terms. Contract leverage is most commonly accumulated when the financial commitment to a carrier is understated relative to your actual budget performance. Companies operating within these circumstances can, when market conditions change (e.g. rates decrease), often renegotiate mid-contract using the threat that excess commitment might be taken to a competitor. Having negotiated many mid-term contracts we know that carriers respond when they feel legitimately threatened with contract leverage. Developing an ongoing awareness of falling rates and prices is most often secured from a benchmark firm. Companies are increasingly relying on objective data secured from contract filings and firsthand accounts of comparable contracts from respected peers. As a result of these changes in rates and pricing, many companies report intra-contract savings between **6** and **15%**.

The challenge for these companies is to recognize the savings opportunity when they first appear rather than delaying the opportunity for some time later within the contract. A delayed opportunity to the Best Practitioner translates as lost savings.



A contract adjusting continuously to changing market conditions provides these Best Practitioners opportunity savings each and every year. For companies with annual budgets in the tens of millions of dollars, even modest savings percentages can have dramatic impacts.

### INFRASTRUCTURE OPTIMIZATION STRATEGY

Historically an infrastructure optimization strategy might have included the proper decommissioning of technology and services no longer in use. The strategy might have also included finding less expensive alternatives to then current infrastructure pieces. In today's contemporary context, an infrastructure optimization strategy layers on to that foundation with analysis of new technology and services, as well as the consumption element associated with each. More so now than in the past, companies' want to understand how, why, and how much they consume of services and infrastructure. Having this knowledge they are constantly seeking solutions and opportunities from which to drive savings and enhanced communications' utility.

Requisite to any analysis of an optimization opportunity is a thorough and complete understanding of their current telecom assets such that any subsequent analysis is grounded in fact and not the more common supposition. When a company is evaluating Session Initiation Protocol (SIP) "trunking" as an optimization exercise, a baseline understanding of the current number of trunks, their variety, and cost are critical in the eventual calculation of a future opportunity savings. Today however, more often than not, companies begin optimization exercises with ambiguous baselines from which to measure potential opportunity and impact.

Best Practitioners are consistently aware of their current state baselines. They can quickly discern the pieces of infrastructure contained within their enterprises, their use, rate of consumption, alignment with business needs, ongoing business benefits, and present day cost. These practitioners stay current so that when they seek to explore a future optimization opportunity they can accomplish the task quickly and project results accurately. Accomplished by any other means these efforts are regarded by these companies as merely “proof in concept” or “what if” exercises.

A mature infrastructure optimization strategy is always looking for ways to incorporate new service options and technologies that would either enhance communication utility or drive lower operational cost. A strategy devoid of accurate baselines protracts the optimization process, calls into question the accuracy of any projected results, and decreases the frequency in which optimization efforts take place because of the inability to forecast returns on investments.

Most recent data reveals companies with aggressive optimization strategies, grounded in accurate asset tracking data, on average cut between **3-8%** annually from their telecom operating budgets. Compounding an active contract management strategy with an optimization strategy companies can realize savings well in excess of **10%** annually.

### **INVOICE AND CONTRACT RATE VALIDATION STRATEGY**

The most recognized strategy of the three, and yet the manner in which most companies deploy their invoice and contract rate validation strategy, is more akin to everyday business tactics. The strategy for many of these companies falls apart as they poorly define their objectives and settle for quick near-term opportunities rather than more institutional opportunities which will serve both short and long-term requirements. Over the years we have seen many companies commit themselves to invoice and rate validation opportunities but lose interest after the low hanging fruit has been harvested. From that point forward focus switches to managing line item variances from month-to-month rather than digging into the entirety of the invoice and rate validation opportunities.

As a strategy, invoice and contract rate validation Best Practitioners understand the two savings perspectives; the initial one-time opportunity resulting from correcting errant invoicing and improper application of rates and the second long-term opportunity required to maintain the secured savings gains and baselines created from the initial effort. Best Practitioners committed to this strategy see the value in both the initial opportunity and the long-term maintenance. They understand that within weeks or months more errors can occur and their good work can be undone.

As with any of the previous two pillars, this strategy relies on the accuracy and thoroughness of existing expense baselines. An accurate accounting of the vendors, their provided products and services, account numbers, validated contract rates, and actual billed rates are at the core of this opportunity. A thorough understanding of only select segments of a product or service portfolio leaves the unattended pieces to eventually overwhelm the entire portfolio with unplanned and under anticipated costs. Companies accustomed to the Best Practice moniker are unwilling to accept that approach as “just a cost for doing business.”

Results for companies well disciplined in executing this strategy range from initial savings ranging from **8-25%** to annual maintenance savings of **6-12%**.

## SUMMARY

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The three pillars - *contract management lifecycle*, *infrastructure optimization*, and *invoice & contract rate validation* are all tools in driving operational costs lower each and every year. This is not a one-time opportunity as might be expected from an audit and not every three years as might result from negotiating within a contract cycle. We mean every year through the planned use of each of these complimenting strategies.

Essential however to each strategy is the accurate accounting of telecom inventories, expenses, and use. Absent of this data contract opportunities don't secure their full potential. Optimization projects seize only the most obvious opportunities. And, invoice and rate validation exercises catch only the most conspicuous examples of errors and savings opportunities. In concert, these three strategies can save **12%** to **25 %** annually.

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