Ask the Right Questions.

How to Control Communications Expenses.

The cost of telecommunications is rising.
But it may be for reasons different than you suspect.

IDC Research estimates that telecommunications and network services are the third or fourth largest operating expense for most companies. As a benchmark, most organizations now spend $150 - $350 per employee per month on communications services. That can be material for a small to medium-sized company, especially one that does not have the resources or the processes in place to correctly manage those costs. And as communication services become increasingly more important to increase productivity while staying competitive, the dollar amount per employee is likely to rise.

Companies most susceptible to escalating expense:

- *Experienced fast growth and/or rapid downsizing over the past 5 years*
- *Employ a high number of communication and collaboration intensive knowledge workers*
- *Support multiple locations and mobile employees.*

Industries with significant challenges include:

- *Business & professional services firms*
- *Multiple-site retailers*
- *Healthcare providers*
- *Financial service firms*
- *Manufacturing firms*

During the last decade, as employees and customers required more efficient ways to communicate, many companies had to invest heavily in their telecommunications. Companies shifted from centralized and static hierarchies to decentralized and mobile workforces. Customers became more comfortable using the Internet and began to expect real-time access to critical information previously available only to in-house employees. To increase productivity in this newly structured workforce, and to deliver better than expected customer service, companies must now supply interoffice data networks, Internet connectivity, cellular telephones, email-enabled pagers, videoconferencing, and a plethora of other technologies to provide their customers and employees "on demand" remote access.

And Communications Expenses are on the Rise

Although the per-minute prices for communications services are declining, the number of communications channels (for example, wireless, Internet access, Web conferencing) is rapidly increasing. As a result, the number of channels (not price per unit) is the primary driver of communications spending. Years ago, employees only needed a phone at their desk. Now they require multiple mobile communications tools and reliable internal and external Internet sites. This proliferation of channels is why Forrester Research states "Communications is one of a company's top three operating expenses."

Lack of Visibility and Control

The addition of these services is straining organizations that are trying to administer these resources effectively. Most managers simply tread water to keep up with the constant demand. Services are often acquired without benefit of careful assessment, planning, or policy. Once in place, services are not re-evaluated - remaining static even as technology matures, business processes evolve, or departments are eliminated.

Without strong visibility into their communications infrastructure, both in terms of cost per employee and efficient use of existing services, companies may find themselves even further strained. Emerging technologies will continue to find new uses. If these technologies can increase productivity, companies must be ready to provide them as they become available and not have to wait to do a time-consuming assessment of existing services, or even worse, skip the assessment and purchase the new services without canceling existing, redundant services.

The fact that the current telecommunications market is rapidly changing poses an additional risk for an unwatched communications infrastructure. Monolithic companies have filed for bankruptcy leaving their customers with doubts as to whether contracted services will continue to be available. To mitigate the risk of buying too much too fast, or too little to late, or from the wrong provider, companies must keep a very close eye on what they have now and what they will need in the future.

Determining Communications Spending Isn't Easy

When IDC Research surveyed IT executives and managers, the people directly responsible for procuring and managing communications assets, 40% said they did not know their company's total annual expenditure on telecommunications. Gartner Group Vice President David Neil believes the actual percentage of those not aware of total expenditure may be much higher. This fact is startling, but not necessarily surprising when you consider the problem ? the communications industry is still very paper-intensive.

Purchasing communications services begins with lengthy legal contracts and once provisioned, those services generate massive monthly paper invoices. A company of less than 200 employees can easily receive a stack of monthly communications invoices seven or more inches high. A company with 1,500 US-based employees received 260 different invoices per month. Multiple locations further complicate the situation. One healthcare provider with over 600 locations received 1,200 invoices monthly. Generally, few companies track their communications expenses with the diligence they apply to other expenses. The effort required to tie this paper mountain to individuals or departments is just too great. Simply processing this information, both during procurement, and then monthly thereafter, requires superhuman effort.

A Strategic Approach to Controlling Communications Spending

To effectively manage communications costs, organizations must be able to answer three questions on a monthly basis:

- *How much are we spending?*
- *What are we buying?*
- *Are we getting value for our investment?*

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Without knowing how much is being spent, a company can't determine whether the amount is appropriate for their business and industry. If it's not known where the expense is occurring, by whom and for what, it cannot be determined whether business needs are being met, or even if the right amount is being paid to vendors. And without the right tools and processes in place, it is impossible to know if a company is getting an adequate return on their communications investment.

How much are we spending?

This is not simply coming up with a total amount on a one-time basis. Companies must put systems and processes in place to obtain, aggregate, and analyze data in a timely manner so decisions can be made and actions taken. To control spending, costs need to be broken down by headcount, business unit or department, and service category. Then a comparison of that spending must be made against similar organizations, along with an analysis of developing trends.

The knowledge of how much is being spent and by whom can be a powerful management tool. Division and department managers who are given information on how much individuals are spending on communications can quickly modify employee behavior in a way that impacts the company's total expenditure.

Determining how much is being spent, may lead to some surprises. An assessment of one company's current services and inventory discovered that they were spending over $5 million a year on communications services, about 50% more than their original estimates.

What are we buying?

Although communications are billed on a monthly basis, many organizations do not think of communications services as inventory to be managed. They do not know the dollar amount spent and what business goals these expenditures support. Yet these monthly expenses are incurred whether or not the corresponding services are meeting business needs, or even being utilized.

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For many organizations, beginning to get a clearer picture of inventory produces immediate cost savings. One communications inventory showed that a manufacturing company was spending $7,000 monthly in unused Centrex lines alone. One personnel staffing business found over 80 lines not being used for a savings of $700-800 per month. One company saved $60,000 annually by consolidating T-1 services. An inventory assessment at a healthcare services firm with 600 regional offices identified $2.5 million in needless expenditures.

This communications inventory must be continually updated and re-evaluated. It may seem counterintuitive, but often the longer an asset or a contract is in place, the more expensive it is compared to newer services or rates. Without systems and processes in place to maintain an updated inventory, information becomes stale and expenses once again rise unchecked. Procurement policies and processes must be established. Without controls in place, employees may order their own services without regard to or even knowledge of existing contracts or "stock" on hand.

Are we getting value for our investment?

While an ongoing inventory assessment can illuminate areas where resources are underused or not necessary, real value can be achieved by determining if the services in place are:

- Empowering employees to do their job
- Being managed reliably and efficiently
- Being used economically

Without this insight, a company may be spending the correct amount on services when compared to similar organizations, but that expenditure may be providing little value to the business as a whole.

Companies must first determine how well they are accomplishing business goals, and if the current portfolio of services meets the overall needs of the business to achieve those goals. Are there bottlenecks? Are employees constrained due to a lack of communications resources? What communications services would make employees more effective? Resources must be mapped to employees and their roles in the organization to achieve improved productivity. Only by segmenting business functions by core business processes can a company determine that employees have the resources best suited to help them do their jobs.

On the other hand, managers need the tools to verify that usage policies in place are being followed, and that employees are properly using the services. One company determined that individual cellular telephone usage regularly exceeded the company policy by $2,000 or more per month. A high tech manufacturer was able to identify and eliminate $50,000 in unauthorized use and fraud by monitoring usage and invoice reconciliation.

Cost savings are fruitless if the business suffers.

Another resource to consider is staff. If too much management time is spent reconciling and processing invoices, or resolving disputes, the value of the corresponding services decreases. In one 200-employee firm, two full-time IT staff were required to manage service ordering and invoice payment. One telecom manager at a manufacturing firm spent 80% of her time allocating communications invoices. Freed-up staff time can be applied to projects more strategic to the company, thus increasing value.

When attempting to manage communications, organizations often focus on managing vendors and negotiating rates rather than selecting the right mix of services to meet business goals and increase productivity. The tactical focus on costs rarely returns significant lasting value. In fact, emphasizing cost savings rather than productivity business needs can be damaging. In deciding between alternative solutions, one company found that the more expensive wireless PDA synchronized with corporate email was more cost effective for their sales professionals. Because they were in a very competitive industry, client interaction and responding to customer needs were paramount. Frequently out of the office, one lost or delayed email could have cost them and their company revenue. For their job function, the value outweighed the expense.

Telecom Expense Management

Once companies start to answer these questions (how much, on what for whom, and is there a return in value), they begin to gain visibility into the holistic view of their communications infrastructure. And that visibility can begin to provide the control needed to manage the services such that their value is in line with the overall business. Unfortunately, those questions are difficult to answer especially on an ongoing basis.

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Companies would never think of managing their customer service, financials or their supply chain without having supporting business processes and technology in place. Yet, most companies handle their third largest expense in just that fashion. Telecom Expense Management (TEM) is a standard that companies can use to more effectively leverage technologies to provide the visibility and insight to more effectively manage the communications infrastructure. TEM applies the same discipline and rigor to the communications investment that organizations have previously applied to customers through Customer Relationship Management (CRM), and to physical resources through Enterprise Resource Planning (ERP).

Like CRM and ERP, Telecom Expense Management must be aligned to the organizations' strategy, business processes, and human resources in order to deliver sustainable results. TEM touches each phase of the communications lifecycle (see sidebar on the next page). It provides the processes and policies, systems and monitors needed to answer the three critical questions on a monthly basis. With this knowledge, organizations can take appropriate actions to get expenditures as well as communications business values in line by matching the organization's communications spending to its business needs, thereby maximizing the return on investment.

The Communications Lifecycle

Evaluate

Identify business needs and service requirements and determine product and vendor selection, negotiate terms and conditions for contractual service, including renegotiation.

Procure

Negotiate order terms and conditions with service providers; place and track orders, including Moves, Adds and Changes; define and implement internal policies and procedures for ongoing purchasing efforts.

Manage

Oversee the service inventory to ensure communications requirements are met, including adjusting network configuration (adding/subtracting functionality and capacity), processing repairs, implementing a disaster recovery plan, managing expenditures, abuse, fraud, exception reporting and actions (including measuring actual expense against budget and taking action).

Reconcile

Review invoices and determine appropriateness of expenses, including reconciliation between inventory and expense, inventory and employee, and expense to contractual pricing, to determine accuracy of charges and inventory.

Account

Account and allocate for communications charges, including accounting treatment and transaction processing (e.g. expense and accrual coding) and future budgeting.

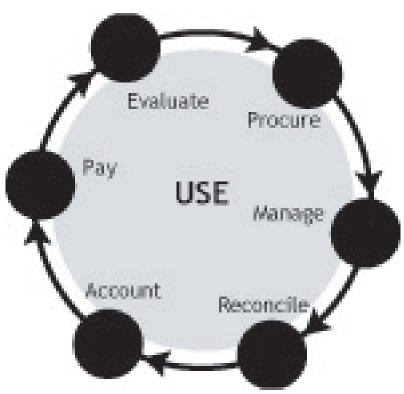
Pay

Make payments and identify and resolve charge disputes.

Touching on each of these and the overall purpose for all the other phases is:

Use

Utilize communications services to deliver employees' work-product, communicate with customers and vendors and enhance the value of the company.



The Bottom Line - Controlling Communications Spending

Strategic Communications Management delivers increased productivity as well as direct and indirect expense reduction. Strategic Communications Management provides the following:

- Control over communications expenditures
  - Efficient invoice processing
  - Easier negotiation for new services
  - Monthly statements that compare a companies expenditure to that of comparable companies
- Visibility into current inventory
  - Ability to ensure current business needs are met
  - Insight into future communication needs
  - Risk mitigation by illustrating a holistic view of the communications infrastructure
- Checkpoint for value
  - Employee empowerment
  - Stronger customer service
  - Increased productivity

An ongoing strategic approach can realize annual direct savings of 10-20% plus indirect savings of 25-60%.

- A large law firm decreased costs from $1.8 to $1.1 million annually, putting over $700,000 a year toward the firm's bottom line.

- Another firm determined that 35% of their communications expenditures were wasted on duplicate services and eliminated $120,000 of their annual $420,000 communications expenditure.

- A high tech manufacturer reduced voice-related telecom costs by 20% and reduced communications costs by $200,000 over three years. In addition, 80% of a corporate telecom manager's time and 70% of a telecom specialist's time was freed for other projects.

- For the far-flung 215 person staff of a newsweekly with over 375,000 readers, in the words of a senior IT manager, Strategic Communications Management made their communications programs "work for us, not against us."

By efficiently providing monthly answers to questions that can deeply affect a company's bottom line, TEM delivers ongoing monthly savings and improved business productivity.

The Final Question- Do you have what it takes?

Communications management represents a major untapped opportunity for efficiency gain and cost savings in today's business environment.

While it is possible for an organization to custom build an TEM solution, for many companies it makes sense to identify a full services partner who specializes in communications management. The scope and complexity of the problem requires specific expertise, software tools, and processes precisely designed to address the constantly fluctuating rates, vendors, and services on one side and the organizational structure and business processes on the other. Staff expertise is required in both telecommunications and data communications. The turmoil in the service provider community mandates constant evaluation of vendor performance and stability in addition to products and prices. The volume and frequency of data dictates automating as much as possible for repeatable, consistent and accurate processing. Value can be gained by taking advantage of best practices and prior experiences implementing policies .

Deploying and implementing a TEM system in weeks versus years brings immediate cost savings to companies as well as long-term optimization and control.

About vCom Solutions

vCom Solutions Provides Communications Management Services

The vCom Solutions Continuum of communications management services provides clients with the technology, processes, expertise and skills required to maximize the return on their communications investment. Our services deliver recurring monthly value and ensure the best communications solution for our clients' business needs.