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Mid-Market Demands for Telecom Lifecycle Management

Over the past 18 months, Aberdeen has evaluated the telecom lifecycle management (TLM) practices of 75 organizations between $50 million and $500 million in annual revenue from three research initiatives: February 2010's *Recovering with Telecom Lifecycle Management*, October 2010's *Controlling Wireless Expenses*, and April 2011's *10 Ways to Improve Your Telecom Lifecycle Management* Although they share many of the same technologies as their larger business peers, a majority of smaller companies cannot track their telecom inventory or spend on a regular basis. This research brief will show pain points mid-sized organizations face in managing their telecom expenses and provide Best-in-Class recommendations identified from 348 organizations over the past 18 months.

Analyst Insight

Aberdeen's Insights provide the analyst perspective of the research as drawn from an aggregated view of the research surveys, interviews, and data analysis

The Case for Mid-Market TLM

Over the past decade, large enterprises have been educated on the value of TLM as a program to manage sourcing, procurement, inventory, cost management, and services (Figure 1).

Figure 1: Aberdeen's Model for Telecom Lifecycle Management

Source: Aberdeen Group, March 2011

However, as the complexity of business communications has been driven by increasing globalization of business and the greater dispersion of remote

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employees, the same struggles driving enterprise TLM adoption have trickled down to smaller organizations.

To keep employees connected, these smaller organizations use landline, wireless, network, and unified communications technologies at roughly the same rate as their larger brethren over 500 million in revenue, but had much lower rates of adoption for managing communications. Aberdeen compared these mid-market organizations to the Best-in-Class (defined as the 20% of respondents) to see how mid-market needs and approaches differed from the general market. Although mid-market communications needs mirrored those of enterprise organizations, mid-market companies face distinct challenges in telecom and network cost visibility.

Organizational Challenges for Mid-Market TEM

When Aberdeen looked at the direct telecom and network spend of smaller organizations, it actually found that they spent 37% MORE than their larger counterparts on a proportional basis compared to their revenues.

Table 1: Percentage of Revenues Spent on Network/Telecom

Data Summary	% Revenues on Telecom	% Revenues on Network	Combined Telecom/Network Spend
All Respondents	0.2%	0.31%	0.51%
Mid-Market (50 million - 500 million dollars)	0.27%	0.43%	0.70%

Source: Aberdeen Group, April 2011

These costs added up to 1.27 million dollars per year for the average organization. By reducing this spend to the typical respondent's rate of 0.51% of revenues, the average mid-market organization could save over $340,000 per year.

Were mid-market companies attaining higher costs because they put less effort into managing their telecom expenses? Aberdeen asked mid-market companies about the number of full-time equivalents (FTEs) spent in managing the sourcing, billing, and support of these costs in October 2010. On average, mid-market companies assigned 3 FTEs per million dollars in spend while larger organizations average only 0.8 FTEs per million dollars in spend. By reducing this labor cost to that of their larger competitors, mid-market companies could save an additional 2.8 FTEs, or approximately $200,000, in fully-loaded costs. In total, the typical mid-market company was spending over $540,000 more for TLM than they would be if they had the management capabilities associated with average Aberdeen respondents.

Since mid-market companies are spending more money relative to their larger competitors and using more labor, how can smaller organizations

Defining the Mid-Market

Of the 75 companies between 50 million and 500 million dollars in annual revenue tracked in this research effort: and defined as "mid-market" in this report, the average company surveyed:

√ Had 43 locations

√ Had locations over 600 miles apart

√ 1040 employees, which was nearly 10 times smaller than the typical Aberdeen respondent.

√ Averaged 202 million dollars in annual revenue better reallocate money and resources away from telecom and network support and towards core activities? In *10 Ways to Improve Your Telecom Lifecycle*, Aberdeen provided best practices adopted by Best-in-Class organizations summarized below(Table 2).

Table 2: Summary of Best-in-Class TLM

	Best-in-Class	Average	Laggards
Process	Process to coordinate finance, procurement, and operations feedback to telecom lifecycle		
	56%	38%	23%
	Process for planning future telecom roadmap		
	55%	32%	17%
Organization	Financial resources with access to TLM solution		
	48%	28%	14%
	Enterprise-wide effort to improve usage of telecom		
	48%	37%	21%
Knowledge	Repository of all landline voice calls and usage		
	70%	47%	33%
	Repository of all mobile/wireless usage (voice, data, text)		
	63%	40%	31%
Technology	Landline Expense Management		
	41%	28%	27%
	Predictive Analytics for Telecom and Network Budget		
	41%	23%	13%
Performance	Current depreciation status for physical telecom assets		
	80%	63%	41%
	Record of savings realized from TLM solution		
	55%	42%	23%

Source: Aberdeen Group, April 2011

From a process perspective, only 17% of mid-market companies had a technology roadmap to plan what they were going to implement next. There are several areas of planning that these companies should consider in their ongoing communications roadmap:

- Which vendors are best suited to meet the organization's needs over the next year? Based on this planning, can the company potentially reduce costs through favorable sourcing?
- Which technologies will the organization need? With the advent of video and social networking, companies need to manage both bandwidth and transactional behavior to manage costs effectively.

Best-in-Class

√ In *10 Ways to Improve Your Telecom Lifecycle*, Best-in-Class companies were defined as having the following traits:

√ 18% reduction in network costs attributable to TLM approach

√ 20% reduction in wireless costs attributable to TLM approach

√ 86% of Outage-Based SLAs met

√ 78% of Impaired Service SLAs met

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- How will new technologies and vendors affect the support structure associated with enterprise communications? Will seemingly small tweaks lead to business-wide support issues that a small IT or operations staff is ill-equipped to handle?

"The key value we received from TLM was in leveraging emerging technologies to increase ROI which drive down costs and improve team member productivity while improving patient care."

~IT Manager, Healthcare, United States

Since telecom is a business-wide expense, line-of-business employees should have visibility to accrued communications costs. Only 29% of mid-market companies had a dedicated effort to reduce telecom and network costs across the entire business compared to 48% of Best-in-Class companies. By providing telecom information to business owners with profit and loss responsibility, mid-market organizations can inform stakeholders of the true cost of this operational expense.

From a compliance perspective, only a third of organizations identified the Federal Rules of Civil Procedure (which defines the use of electronic data in American civil courts) as a concern. However, since the employer is held responsible for costs of providing relevant electronic information (including voice over IP, voicemail, texts, instant messaging, and email), this should be a concern for all organizations with American operations. By gaining greater visibility to usage, companies can reduce potential forensic and compliance costs associated with the potential challenge of providing court evidence.

Technological and Financial Challenges

To track costs, Best-in-Class organizations started with a full repository of usage based on invoices and call accounting to track current usage patterns, chargeback usage to appropriate departments, and dispute any inappropriate calls. Only 45% of mid-market organizations had landline usage available compared to 70% of Best-in-Class companies. In fact, a majority of mid-market organizations lacked any formal management of telecom costs and treated them either as flowthrough expenses at the Accounts Payable level or expenses associated with remote offices, travel, or other operational categories. Because of this lack of management, only 36% of companies between 50 million and 500 million dollars in annual revenue were able to track savings realized over the past year through TLM-based efforts.

One solution would be to invest in a telecom expense management software solution or managed service to control these costs. In reality, 62% of mid-market respondents stated that they had less than $10,000 in budget for improving TLM over the next year. Although the financial benefit of TLM is straightforward, smaller organizations must be more creative with their IT and operational budgets.

To solve this budget challenge, smaller organizations can consider Software-as-a-Service solutions that can reduce the efforts associated with invoice and inventory management., contingency billing for services based on savings or services rendered, or telecom resellers that bundle TLM services with telecom services that are already being used in the organization.

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Recommendations for the Mid-Sized Enterprise

Organizations between 50 and 500 million dollars in annual revenue must have mature telecom and network infrastructure to compete with larger competitors, yet lack management tools to control the associated costs. To make productive changes that can save $500,000 per year inTLM costs, Aberdeen provides the following recommendations.

- **Create a business-wide effort for Telecom Lifecycle Management.** This holistic effort should include both a business-based assessment of technologies needed in the workplace and a process to give key managers visibility to telecom and network spend. The first strategic step to successful TLM is to change telecom costs from an invisible expense to a real business metric.
- **Shift from passthrough and manual invoice management to a formal oversight process for telecom expenses.** Without IT or financial oversight, telecom invoices will never be appropriately scrutinized or corrected. Even if organizations carefully negotiate discounts and service level agreements, these efforts can be torn apart through lax oversight that allows phone lines and circuits to stay on invoices months after the intended disconnection date.
- **Consider alternative methods of managing the telecom lifecycle.** The most common solutions for Telecom Lifecycle Management are to purchase stand-alone software or managed services. Since mid-market organizations lack the discretionary operational budget that larger organizations may have, they should consider TLM services bundled into other telecom or IT-based services, especially if the services are at little to no additional cost.

By learning from larger organizations and seeking creative solutions, mid-market organizations can reduce their own telecom and network costs and gain operational flexibility as they pursue their own TLM solutions.

For more information on this or other research topics, please visit www.aberdeen.com

Related Research	
Recovering with Telecom Lifecycle Management February 2010 *Controlling Wireless Expenses*; October 2010 *Improve Efficiency and Reduce Costs by Automating Mobility Management*; February 2011	*10 Ways to Improve Your Telecom Lifecycle Management*; April 2011 *Conquering the Fear, Uncertainty, and Doubt of Managing Integrated Communications*; July, 2011

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