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SmartSpend™ Bulletin

Which Telecom Cost Control Tactics Yield the Biggest Savings?

For many enterprises, telecom is a notoriously difficult spend category to manage. Voice, data and network costs span multiple providers and geographies. Invoicing is usually decentralized, and the details are unintelligible to the average A/P department. Usage is highly variable and carrier offerings evolve daily in a wildly competitive marketplace. Even with commoditized pricing for most services, the majority of enterprises still overspend by 30 percent or more on telecom. So, where can companies find material savings? Which cost control tactics yield the biggest impact?

The majority of enterprises **overspend by 30 percent or more** on "as is" telecom.

Telecom cost control has never been an easy mission for enterprises. Despite carrier price wars and the introduction of new expense and device management tools, most businesses continue to be on the losing side of the battle. The battlefield itself is an expansive one as the scope of telecom has grown. Visibility into voice, data and network spend is low and the line between traditional IT and telecom services continues to blur. Add to this a myriad of vendors – some pure-play (AT&T, Cisco), some not (Microsoft) – and the challenges to telecom cost control become apparent.

There are two "atmospheres" of telecom cost control, most easily characterized by the following questions:

1. Should we change what we've got in order to cut costs?
2. Given what we've got, is everything cost-optimized?

Any "Yes" answer to the first question is usually high risk and disruptive. This bulletin focuses on the second question – let's call it "as is" telecom cost management.

To really move the needle on telecom cost reduction, companies should focus first on contract optimization and service/subscription optimization. **This one-two punch can easily drive savings of 25 to 50 percent**.

In order for enterprises to fully rein in "as is" telecom spend, they must understand the four primary areas where savings can be achieved, and establish a cadence for cycling through these tactics on a regular basis:

- Carrier Contract Optimization: The optimization of pricing/rates, discounts, credits and business terms. If you haven't optimized your carrier agreements in the last 18 months, if you have grown significantly or if you have satisfied your minimal annual revenue commitment (MARC), now is the time to re-optimize your carrier contracts!
- Subscription and Service Optimization: The optimal selection of provider/vendor plans and services based on actual and forecasted usage, and grooming of zero-use lines and services. While some businesses can get away with performing this exercise on a quarterly or semi-annual basis, it's best done monthly for most enterprises.
- Compliance Monitoring: Invoice auditing to identify and remediate billing errors. In addition to adherence to contractual pricing, compliance monitoring should also cover adherence to discounts, penalty waivers, incentives and other cost-related contractual terms. This is an ongoing management activity – meaning telecom costs need to be monitored in real time ("Are our invoices correct?") as well as ad hoc based on customer-specific triggers ("Did we receive new activation credits for last quarter's account growth?).
- Demand Management: The optimization of internal policies related to service usage and device management to deter rogue spending. This should be performed monthly.

WHEN IT COMES TO AS-IS TELECOM COST REDUCTION, SOME TACTICS ARE MORE POWERFUL THAN OTHERS

The average savings yielded by each of the aforementioned tactics vary widely. This is an important point for enterprises that often approach telecom cost reduction initiatives with limited resources. Where can they drive the most savings over the longest period of time for the least amount of effort? Here is how these areas of focus stack up:

TACTIC	AVERAGE SAVINGS	QUESTIONS TO ASK
Contract Optimization	**15 to 30%**	• Are we paying the lowest price/rate? Have we benchmarked pricing/rates to ensure we're getting the best deal? • Are we receiving best-in-class discounts and credits based on current and historical spend volume? • Are contract terms and conditions best in class? Are there penalties or fees that we can negotiate down or out of our agreement (such as early termination fees)?
Subscription and Service Optimization	**10 to 25% in the first iteration*** *Average savings for first iteration in a while, or first iteration following carrier contract optmization	• What types of services/plans are we using? Are they aligned with current usage and business requirements? • In what areas are we paying for more than we're using? • Do we have any zero-use lines that need to be groomed? • In what areas are we under-serviced or under-subscribed? Are we incurring overage charges or premium pricing?

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WHERE DOES TEM FIT IN?

Telecom Expense Management (TEM) tools and managed services are common cost control tactics. TEM is ideal for Compliance Monitoring and Demand Management. TEM managed service providers also offer value-adds like provisioning, help desk and payment that can really ease the burden on strained corporate resources.

Unfortunately, TEM doesn't solve the Contract Optimization problem. And depending on your approach (managed service vs. in-house use of a platform), TEM may or may not handle Subscription/Service Optimization.

Remember, TEM typically yields cost reductions in the range of 5 to 10 percent of category spend – only a portion of the 30+ percent that many enterprises overspend on telecom.

TACTIC	AVERAGE SAVINGS	QUESTIONS TO ASK
Compliance Monitoring	**3 to 7%**	• Are we being charged the correct price for usage? The correct fees/penalties based on our contract terms/conditions? • Are we receiving appropriate discounts and/or bonuses for meeting revenue goals? • Are invoices being appropriately prorated? • Have we reached our MARC? ◦ Tracking against revenue commitments ◦ Tracking against minimum service commitments
Demand Management	**3 to 5%**	• Are we continuously aligning plan/service selection with actual usage? • What corporate policies are in place to regulate and normalize spending (especially for wireless)? E.g. automatic device upgrades, BYOD reimbursement, etc.

Based on NPI's experience, most enterprises focus on a subset of these tactics; and not always the ones that deliver the most savings. Even when executed flawlessly, Compliance Optimization and Demand Management typically yield savings of less than 10 percent.

To really move the needle on telecom cost reduction, companies should perform Contract Optimization right away, then do an immediate Service/Subscription Optimization pass. For NPI clients, this one-two punch typically drives 25% to 50% savings.

PRICE BENCHMARK ANALYSIS AND NEGOTIATION INTEL CREATE A FAST PATH TO MATERIAL SAVINGS

Contract Optimization has the biggest potential to yield savings, but companies usually leave a lot on the table in this area. They also tend to miss mid-term opportunities to renegotiate.

How can enterprises verify whether they are getting best-in-class pricing, discounts and terms? How can they choose the best service/subscription given the numerous plans and bundles available across multiple vendors? These are just two examples of the limitations facing most telecom sourcing teams – and the role outside experts can play in keeping telecom costs under control.

Consider getting expert assistance with Contract Optimization and the first pass of Subscription/Service Optimization. These important first steps yield the most savings over the longest period of time for the least effort, and position you well to establish a cadence for ongoing tuning and control of "as is" telecom spend.

ABOUT NPI

NPI is an IT sourcing consulting company that helps enterprises identify and eliminate overspending on IT purchases, accelerate purchasing cycles and align internal buying teams. We deliver transaction-level price benchmark analysis, license and service optimization advice, and vendor-specific negotiation intel that enables IT buying teams to drive measurable savings. NPI analyzes billions of dollars in spend each year for clients spanning all industries that invest heavily in IT. For more information, visit www.npifinancial.com.

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NPI Real experts. Real data. Real savings.