
Health-Care Company Finds Cure to Telco Sourcing Headaches

Executive Summary

With more than 100,000 employees in more than 50 countries, this large health-care company relies on a significant sum of telecommunication services to stay connected to colleagues and consumers. Thus, the \$30-plus billion company spends tens of millions of dollars on voice and data usage each year in its mission to keep the world healthy through pharmaceutical products.

Although the company is decentralized, it has made some strides in developing shared services for its 200-plus separate operating companies. One of these shared services areas is data support — including its common information technology (IT) network that can be accessed from anywhere in the world.

To contain network telecommunication costs, it turned to Avotus Corp.'s Intelligent Communications Management (ICM) e-Procurement offering (formerly Applied Research Technologies Inc.'s ARTTOOLS solution) to improve its telecom strategic sourcing processes with an online reverse auction platform. The result: the company was able to cut sourcing cycle time from 18 months to six months and realized from 40% to 50% rate reductions in contract renegotiations through the ICM e-Procurement auction.

Business Challenges

From its U.S. headquarters, the pharmaceutical company provides its IT network with access services to all its divisions. The director of information management strategic sourcing at the company's U.S. headquarters estimates that his team has two or three people working on telecommunications data service sourcing for the whole company worldwide, at an equivalent of one dedicated full-time employee (FTE) workload per year.

The group's traditional negotiation cycle for telecommunications services used paper request for quotes (RFQs) and phone negotiations, and as a result, often stretched to 1.5 years for each contract renewal, he said. He noted that in the past it often took six months just to schedule vendor presentations and capture service and pricing information manually.

Selection Process

To accelerate this process, the company turned to Avotus to supply an electronic sourcing solution for automated contract bidding. A key driving factor was Avotus' ICM e-Procurement's ability to provide a Web portal interface to data — both details that Avotus has compiled in its own database of best-in-class pricing for common telecommunication services and specific data compiled from its vendors' responses to its electronic RFQs.

Deployment and Results

The Avotus ICM e-Procurement group conducted its first auction for the company in 2001, when the firm had a number of contracts up for three-year renewals. Through Avotus ICM e-Procurement's reverse auction process, the health-care concern was able to cut sourcing cycle time from 18 months to six months and realized from 40% to 50% rate reductions in all the categories that it sourced using the auction.

These dramatic savings resulted from the improved rate information visibility and competitive environment that the Avotus ICM e-Procurement solution brought to the company. Although it included only a very small pool of the company's existing carriers, the auction was able to inject more competitiveness and commitment from the suppliers that wanted to work hardest for the business.

Lessons Learned

"The carriers knew we would move the business [to the most aggressive bidders]," the director said. "A couple of carriers did learn the hard way, though [by not fully participating in the auction.]"

Future Outlook

Following its success with data contract sourcing, the company sees room for further improvement in its voice line expenditures. However, its 200-plus operating companies are independent, so the decentralized structure precludes easy aggregation of telecommunications services across the board.

The challenge is getting decent data on its telecommunications service usage. Today, the sourcing professionals still have to ask the incumbent carriers for total spend information.

Yet the company assessed all its voice and data spending numbers, and it has a fairly good understanding of where it stands on pricing across the board. Depending on how the carriers respond, the company will consider using the reverse auction again in North America — and very likely for its services in the rest of the world.

Aberdeen Conclusions

The ability to aggregate data and gain insight into best-in-class pricing was the key to this company's cost-containment success. By leveraging the competitive dynamic of the auction, the firm was rewarded with dramatic savings that few could have predicted would be available to them. In addition, its telco specialists now have more time to dedicate to other tasks, which should include ensuring that the company realizes similar savings in more categories over time.

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