



Aberdeen *Group*

The Total Telecom Cost Management Process Benchmark Report

Optimizing Telecom Costs, Utilization, and Performance

February 2006



Executive Summary

For most companies, telecom is a large and growing expense, with expenditures for telecommunications services, infrastructure, and devices accounting for 3.6% of revenues at most enterprises, according to Aberdeen research. Telecom eats up an even greater percentage of overall expenditures in certain industries with a heavy technology reliance, such as high tech, Web and brick-and-mortar retail, and financial services.

A series of Aberdeen benchmark studies — the latest of which is presented in this report — has revealed that telecommunications expenditures are uncontrolled and under-leveraged in most organizations. A key challenge these enterprises face is the fact that the telecommunications industry consists of a constantly shifting labyrinth of services and products — from Voice over Internet Protocol (VoIP) to wireless devices. Our research found that enterprises face the following four pressures in managing telecom costs:

- Continued pressures to reduce costs and improve operational performance;
- The increasing complexity of the telecommunications industry because of bankruptcy and M&A activity, as well as new service offerings;
- Legacy billing systems at telcos that are notoriously rife with errors; and
- A renewed focus on their core competencies.

Internal challenges to assessing and managing telecom costs include poor visibility into telecom service contracts, device availability and usage, network configuration, and invoice accuracy. Aberdeen research specifically found the following issues:

- Most firms (52%) were managing less than 70% of their telecom expenses, with most of that group actively managing 50% or less;
- 7% to 12% of telecom service charges are in error;
- 85% of a typical enterprise's telecom bills are not audited internally and simply paid in full; and
- For bills that *are* validated, billing analysts most often examine only a subset of invoices associated with the largest spending.

As a result, inadequate visibility and control of telecom expenses are ***costing large enterprises more than \$8 million a year*** in missed savings opportunities.

Aberdeen recommends that enterprises adopt formal total telecom cost management (TTCM) programs, preferably centralized in one corporate function, such as finance or procurement, that has visibility into telecom device and service spending and asset utilization, and that can institute and uphold enterprise-wide policies and systems for control.

Look to the Leaders

Aberdeen's latest benchmark found that all top performers have such formal TTCM programs. However, leaders distinguish themselves from peers by proactively managing all



or close to all of their telecommunications expenditures. Here are some of the characteristics that define top-performing enterprises in TTCM processes:

- **Greater longevity for formal telecom cost management program**, with most having formal programs in place for more than a year. Top-performers were also more likely to centralize responsibility for telecom policy and control under a single function.
- **More than 40% greater efficiency when sourcing a telecom contract**. This is primarily the result of standardized sourcing procedures; dedicated telecom category experts, and use of sourcing automation tools and analytics.
- **Nearly 30% faster invoice auditing and processing cycles**. This is due to the use of invoice reconciliation and analytics automation and support from outsourced service providers.
- **Broader use of technology to support TTCM initiatives**, including automation and services to support analysis invoices and usage and for managing telecom contracts. Many top-performers are also using requisitioning and procurement applications for new service orders as well as outsourcing.

This benchmark report quantifies cost and performance losses associated with poor telecom cost management and provides a practical framework for improving visibility, utilization, and control of telecom spending.



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Chapter One: Issue at Hand

Key Takeaways

- With telecommunications use poised to grow, many firms are acting to save money and ensure high-quality service by launching formal telecom management programs.
- Enterprises must look at several approaches — invoice auditing, contract management, web-based sourcing and procurement, and network and device planning and management — to assure they're not being overcharged for the services they want.
- Centralized telecom spend management programs tend to be more successful at achieving cost savings and management goals.

Telecom is a large and growing expense at most companies. AberdeenGroup research finds that telecommunications services, infrastructure, and device expenditures account for 3.6% of revenues at most companies. Telecom expenses are even a greater percentage of overall expenditures in certain industries that have a high reliance on technology, such as high tech, Web and brick-and-mortar retail, and financial services.

However, a series of Aberdeen benchmark studies has revealed that telecommunications expenditures are uncontrolled and under-leveraged at most companies. A key challenge these enterprises face is the fact that the telecommunications industry consists of a constantly shifting labyrinth of services and products — from Voice over Internet Protocol (VoIP) to wireless devices. We found that enterprises face these four pressures for managing telecommunications costs:

- Continued pressures to reduce costs and improve operational performance;
- The increasing complexity of the telecommunications industry because of bankruptcy and M&A activity, as well as new service offerings;
- Legacy billing systems at telcos that are notoriously rife with errors; and
- A renewed focus on their core competencies.

Internal challenges to assessing and managing telecom costs include device availability and usage, network configuration, invoice inaccuracy, and poor visibility into telecom service contracts. Aberdeen research specifically found the following issues:

- Most firms (52%) were managing less than 70% of their telecom expenses, with most of that group actively managing 50% or less;
- 7% to 12% of telecom service charges are in error;
- 85% of a typical enterprise's telecom bills are not audited internally and simply paid in full; and
- For bills that *are* validated, billing analysts most often examine only a subset of invoices associated with the largest spending.

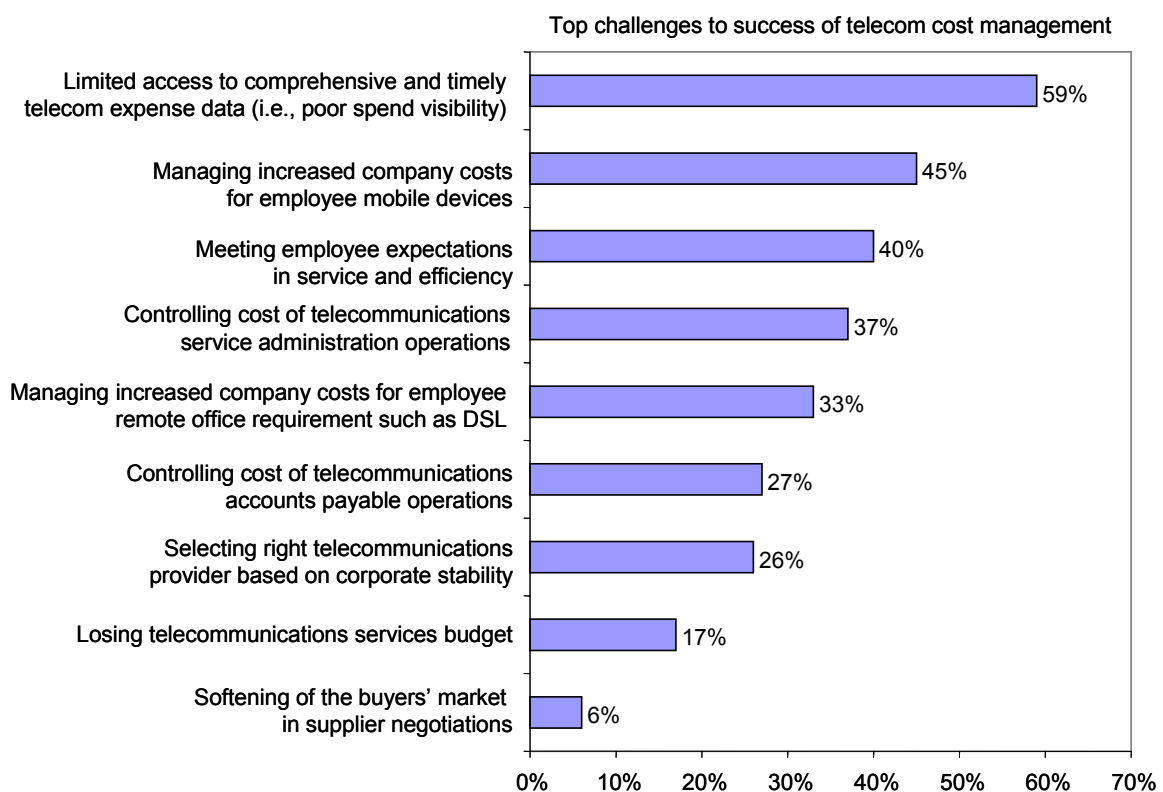


As a result, inadequate visibility and control of telecom expenses are costing large enterprises more than \$8 million a year in missed savings opportunities.

The top four reasons for poor telecom cost management performance (Figure 1) are:

- Poor visibility into spend data;
- Managing increased costs for employees' mobile devices;
- Meeting employee expectations for service and efficiency; and
- Controlling costs of service administration operations for telecom.

Figure 1: Increased Use and Decreased Insight Pose Polar Challenges in Telecom



Source: AberdeenGroup, June 2004

Such factors are causing enterprises to prioritize total telecom cost management (TTCM) as a major improvement initiative for corporate executives (Table 1).

The Success of Formal TTCM Programs

Aberdeen conducted its latest examination into telecom cost management procedures and performance in December 2005 for this report. The study validated that enterprises are placing a higher priority on reining in telecom spending and instituting the governance and process mechanisms to achieve that goal. Most of the 90 companies benchmarked have established formal programs for managing telecom costs. Such efforts are:

- Driving improvements in visibility into spending;



- Improving sourcing, auditing, and reporting efficiency and performance, and
- Improving utilization of telecom assets.

These companies also tend to spend more on telecom services: **56% of the firms in our survey that have formal programs spend at least \$6 million a year on telecom services.** On the other hand, **84% of the enterprises that don't have formal programs spend no more than \$5 million.** These facts highlight the importance of formal programs for companies with larger telecom budgets. The facts also suggests that many under-performing enterprises lack accurate and detailed insight into all telecom spending.

Specifically, Aberdeen research has revealed that entire categories of telecom spending – such as wireless expenditures – are nearly invisible to the enterprises due to lack of formal policies and controls for procuring, tracking, and managing utilization of devices and plans. (Aberdeen is currently benchmarking enterprise approaches to wireless cost management. Findings from this study will be available in March 2006.)

Enterprises that have instituted formal programs are more efficient than those without such programs in several aspects of analyzing and procuring telecom services, such as:

- The time to source a typical contract or process a “move, add, change, deletion” request (MACD) for services,
- Processing invoices, and
- Compiling reports on telecom expenditures. (Actual performance metric comparisons appear later in this report).

Our survey also highlighted the importance of centralizing these tasks within one department or function (Figure 2). Sixty-nine percent of all respondents — and 76% of those with formal programs — assign responsibility and control for TTCM under one functional department. (See more on this issue in Chapter Three)

Table 1: What is TTCM?

Total telecom cost management (TTCM) brings value to an enterprise by eliminating unnecessary costs in telecommunications processes and reducing total costs through systematic and strategic sourcing. Aberdeen views a five-step, holistic approach to TTCM:

Monitor – encompasses invoice processing, validation, and reconciliation and recovery.

Buy – includes telecom cost disbursement and accounting.

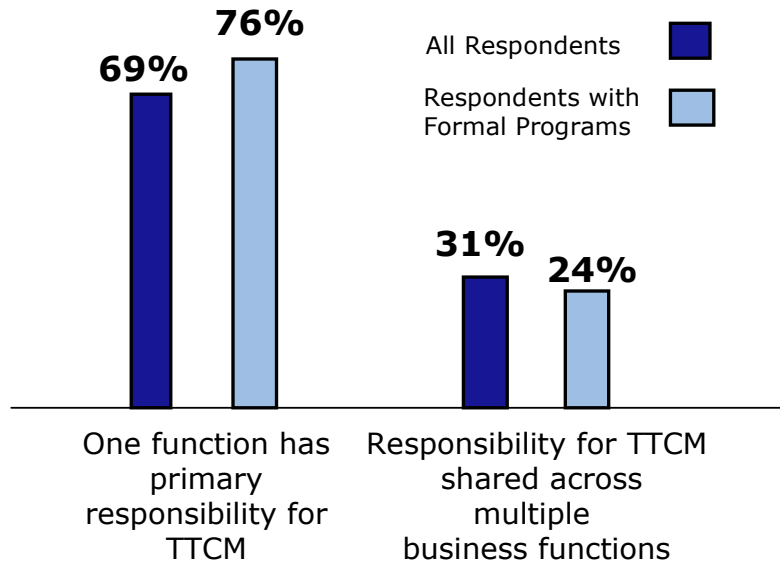
Analyze – includes repeatable and accurate telecom spending analysis and reporting.

Plan – includes telecom asset and service inventory, vendor, and contract management, as well as user controls and management.

Source – encompasses pricing and market benchmarks, vendor selection and negotiation, and ongoing procurement execution and compliance management.



Figure 2: Primary Responsibility for Overseeing Telecom Cost Management



Source: AberdeenGroup, February 2006

Chapter Two: Key Business Value Findings

Key Takeaways

- The more a company spends on telecommunications, the more likely it will have a formal program to manage telecom spending.
- Companies with formal telecom spend management programs outperform peers in cost reductions, productivity, and performance.
- Technology can be an enabler for both internal and outsourced total telecom cost management (TTCM) programs. Enterprises must understand TTCM solutions and how they can help control spending.

Aberdeen research revealed four primary pressures driving companies to improve telecom cost management operations and performance. Table 2 describes these pressures, as well as the corresponding actions or strategies enterprises will take to address these issues. The table also defines the internal capabilities or business process competencies and technology or services enterprises feel they need to execute these strategies. (Table 3 describes Aberdeen’s PACE framework.)

Table 2: PACE for Telecommunications Cost Management

Pressures	Actions	Capabilities	Enablers
Continued pressures to cut costs and improve operational performance	Aggregate, automate, and understand telecom spending companywide to cut costs	Integrated, closed-loop total cost management life-cycle process	E-sourcing/ reverse auctions, invoice and usage reconciliation, e-procurement, spend analysis
The telecommunications industry is increasingly complex through bankruptcy and M&A activity, as well as new service offering additions.	Develop or access telecom domain and process expertise and extended functionality to track usage	Improved availability of third-party telecom-specific domain experts and process methodologies.	Supplier and market intelligence databases; RFX templates, and contract and policy compliance business rule engines
Legacy billing systems at telcos are notoriously rife with errors.	Develop standard and documented procedures for managing and reporting telecom costs	Proven and proactive compliance controls and reporting infrastructure	Invoice and usage reconciliation, contract management; performance management; allocation
Renewed focus on core competencies	Transition underperforming processes, assets, and management of telecom to a third party	On-demand telecom spending reconciliation, analysis, and procurement automation delivery model	Managed total telecom cost management services and support

Source: AberdeenGroup, December 2005



Table 3: PACE Key

Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:

Pressures — external forces that impact an organization's market position, competitiveness, or business operations

Actions — the strategic approaches that an organization takes in response to industry pressures

Capabilities — the business process competencies required to execute corporate strategy

Enablers — the key functionality of technology solutions required to support the organization's enabling business practices

Companies with formal TTCM programs generally perform better than those with informal programs or those without programs. In addition, programs that are centralized within one corporate function, such as finance or the IT organization, yield the best results in key process and cost improvement metrics. Notable metrics in which formal programs yield better results include *time to source a contract*, *percentage of telecom spend being proactively managed* (Figures 3, 4, and 5), and *length of time in reporting telecom expenditures* by time, organizational, supplier, or service categories (about 4 to 5 days for enterprises with formal programs versus 13 to 14 for those with informal programs).

What Top-Performing Companies are Doing

All top-performing enterprises have formal TTCM programs, but they distinguish themselves from other companies by proactively managing all or close to all of their telecommunications expenditures. Key characteristics of top TTCM performers include:

- **Telecom cost management program longevity:** Eighty-three percent of top-performers have had TTCM programs in place for at least six months, including 61% that have had them in place for more than a year.
- **Greater sourcing efficiency:** Sourcing a typical telecom contract costs substantially less than the average for any company with a formal TTCM program (\$12,150 vs. \$21,663). This is primarily the result of standardized sourcing procedures; dedicated telecom category experts, and use of sourcing automation tools and analytics.
- **Faster invoice auditing and processing cycles:** Leading companies take less time to process telecom invoices (average: 9.8 days vs. 13.6 for all others). They also take less time and resources to resolve a dispute with a telecom vendor. This is due to the use of invoice reconciliation and analytics automation and support from outsourced service providers.
- **Broader use of technology:** Top-performing firms are more likely to use technology to help them achieve their TTCM goals, largely in analyzing invoices and usage as well as managing contracts. Many also use requisitioning and procurement applications for service orders, with an even larger number indicating that they're planning to adopt them within the next year. Top-performers also leverage outsourced service providers to augment and accelerate TTCM initiatives.

The Outsourcing Option

Enterprises outsourcing telecom cost management reported positive results, indicating that their providers manage all or very close to all of their telecom spend. Performance results reported by enterprises outsourcing TTCM include:

- Decreasing telecom service rates after their most recent sourcing activities;
- Telecom contract sourcing cycles of about three months, in line with formal, top-performing non-outsourced programs;
- MACD request for telecom services took two weeks, on average, to process; slightly less than the average for all companies with formal programs.

Success Stories

What have enterprises accomplished with their TTCM programs? Here are three examples from our research.

Outsourced Program 'Works Well' for Wall Street Investment Firm

As part of a company-wide goal to save tens of millions of dollars annually on telecom expenses, a major Wall Street investment firm sought to institute centralized contract and vendor management to improve its negotiating position on pricing and terms. It outsourced approval/order tracking, inventory maintenance and vendor management. As a result, the outsourcing vendor ordered all circuits and services under the correct contract prices and terms and tracked and managed them to installation. The investments were then entered into inventory and paid for accurately. All told, the outsourcing vendor helped deliver more than \$20 million in savings in the first year of the firm's program.

The Wall Street firm also reported that the outsourcing strategy improved the sophistication of their telecom service provider evaluation and selection process, resulting in improved pricing and service levels.

Source: [AberdeenGroup](#), February 2006

Figure 3: Average Time to Source a Telecom Contract

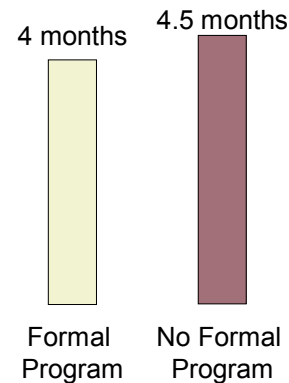


Figure 4: Average Time to Process an MACD (Move, Add, Change, Delete) Request

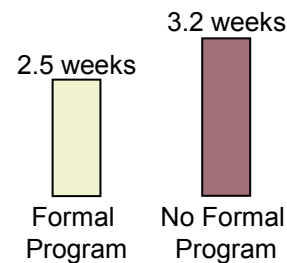
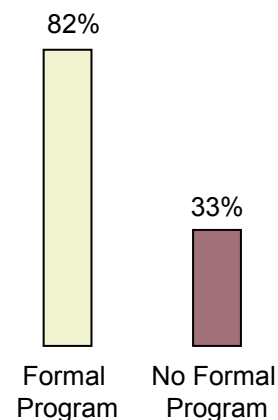


Figure 5: Percentage of Telecom Spend Under Proactive Management





A Strong Start for Communications Company

Following a directive from its headquarters, a large communications company sought to simplify and streamline its telecom sourcing processes as part of a wider initiative to improve its entire procurement process. The company was working with very lengthy requests for proposal (RFPs) and an inefficient process in sourcing a wide array of telecom services, including Voice over IP (VoIP), wireless, data, and private networks. Additionally, the vice president of IT and telecom said 20% of the company's bills were erroneous.

The organization implemented a supplier relationship management solution and, despite being a decentralized organization, has seen a 20% reduction in costs from its \$30 million in telecom expenditures in the initial stages of the streamlining initiative. It expects to save even more.

TTCM Success in a Far-Flung Network

Five years ago, HCA Inc., a hospital management company based in Nashville, Tenn., that controls a network of locally managed facilities, including 190 hospitals and 90 free-standing surgery centers in 23 U.S. states, England, and Switzerland, faced a dilemma of decentralization (See [Best Practices in Telecom Cost Management](#)). Although its telecom management team had always controlled the corporation's data services through provisioning and contracting, each facility was able to contract for its own voice services. This autonomy made it difficult for HCA to gain accurate visibility into the voice services each hospital was using and limited HCA's overall buying power with carriers.

It also led to high incidents of unconventional spending at many of the units, resulting in excessive or unapproved local transport calls, directory assistance calls, international calls, or carrier line charges. Further, telecom spend at each facility was managed by an operations staff that had little knowledge of national telecom services or how to negotiate and manage such carriers if they contracted with one on their own.

To improve visibility and control of telecom spending, HCA turned to an electronic TTCM solution to analyze HCA's telecom spending, audit usage billing and rate compliance, and improve dispute reconciliation and rebate and overpay recovery. In 2001, HCA launched a pilot program that allowed users to examine corporate invoices and drill down to identify and reconcile discrepancies. Information on spend for voice and data services from HCA's inter-exchange carrier (IXC) was loaded into the system for preliminary review. Two months later, once the pilot confirmed that the billing data could be loaded consistently with a level of detail that allowed HCA to analyze its spend, the HCA team decided to move forward on deployment.

The results? In its first 12 months of using the system, HCA discovered \$1 million in data networking billing errors. And, as of April 2005, HCA had reduced telecommunications expenses 21%. With the system in place for more than three years, "we won't be finding \$1 million in errors anymore," says Brenda Adkisson, HCA's director of enterprise voice services. However, she notes HCA is now achieving savings through cost avoidance. "Errors used to sit out there for six to 12 months, and when they were finally caught, we had to renegotiate a credit with the vendor," she says. "Now we view the billing data the month we get it and we catch any errors immediately."



By March 2005, all of HCA's sites were on the system and they're now able to better manage their telecom activities, reducing the time required to assemble budgets. Meanwhile, HCA gains leverage in contract negotiations with local telecom vendors.



Chapter Three: Implications & Analysis

Key Takeaways

- Most of the interest in technology or service solutions that support TCCM lies in invoice auditing and contract management.
- More enterprises are realizing the value of online tools and services that can help them manage telecom contracts and source telecom products and services.
- Most centralized TCCM programs fall under the oversight of the finance or IT organization. Operations and procurement play this role in some companies, but finance and IT oversee the programs in most top-performing companies, according to our survey.

Taking Aim at the Telecom Beast

The management of telecommunications costs can be split into three areas:

1. The auditing of invoices to ensure you're paying only for what you're receiving;
2. Examination of contract terms and service performance to ensure you're receiving the products and services you need to conduct business, and
3. The procurement of products and services in a timely fashion, at the best possible prices and contract terms.

To carry out the actions cited in the PACE chart in Chapter Two, enterprises focus on four particular strategies:

1. Aggregate, automate, and understand telecom spending companywide to cut costs.
2. Develop or access telecom domain and process expertise and extended functionality to track usage.
3. Develop standard and documented procedures for managing and reporting telecom costs.
4. Transition underperforming processes, assets, and management of telecom to a third party.

These strategies are typically supported and enabled through technology or service support. The following lists and explains the three areas of managing telecom costs, with the management and technology enablers enterprises use.

Invoice Auditing

Four of the top five technologies enterprises used as part of their TCCM strategies focus on cost control and compliance (Table 4): *invoice presentation and analysis*, *service usage auditing/accounting*, *invoice aggregation and payment*, and *service usage allocation/chargeback*. Not far down the list: spend analytics. These technologies help enterprises combat the biggest of the four pressures they face in telecom cost management: cutting costs and improving operational performance, as well as scrutinizing telecom bills for errors. Most of these tools are deployed company-wide, more evidence of the popularity of a centralized approach to TCCM.

Benchmark participants cited “pricing competitiveness” and “billing errors” among the top metrics their companies use to assess a telecom provider’s performance. But nearly all said costs also figure into their performance measurements.

Table 4: Technologies Enterprises Use or Plan to Use as Part of TTCM Strategies (Companies with Formal Programs or Planning Them)

	Use Now	Plan to Use within 12 Months	Plan to Use after 12 Months
Invoice presentation and analysis	67%	17%	7%
Invoice contract term reconciliation	63%	15%	7%
Service usage auditing/accounting	64%	23%	5%
Invoice aggregation and payment	61%	13%	11%
Service usage allocation/chargeback	55%	14%	5%
Inventory/asset management	50%	26%	13%
Spend analytics	40%	26%	15%
Rate database	38%	23%	10%
E-procurement application for new service orders	31%	24%	16%
Electronic contract management	33%	22%	13%
Online RFx-based negotiations	18%	9%	11%
Reverse auction	13%	13%	4%

Source: AberdeenGroup, February 2006

Spending Analysis

Benchmark participants cited telecom spend visibility as their top challenge in improving telecom costs and performance (Figure 1). The largest source enterprises reported using to gain insight into spending is vendor system reports, most frequently on paper. However, relying on vendor data for any category spend management is the business equivalent of having the “fox in the henhouse,” and enterprises were often dubious of the reports they received.

Spend visibility is a common challenge across all spend category management programs. Spend data is dispersed across multiple, disparate systems within and outside the enterprise. This data is often rife with errors or omissions, making it difficult to classify for meaningful analysis. In a related Aberdeen benchmark in 2004, participants reported that nearly a third of all spend data is either misclassified or classified as miscellaneous (i.e., “9999”).

Not surprisingly, enterprises have prioritized spend data cleansing, classification, and analysis tools and services as areas of investment to reap benefits from spend data management (Table 5).



Table 5: Benefits of Spend Data Management

Improvement Area	Performance Impact
Material/services costs	Reduce costs 2% to 12% through informed strategic sourcing strategies
Supplier management	Eliminate duplicative suppliers. (Reduction depends on previous efforts.)
Contract compliance	Improve compliance 55%. Save 7%, through use of contract pricing.
Regulatory compliance	Meet regulatory reporting rules.
Inventory management	Cut excess stocks more than 50%. Lower inventory costs 5% to 50%. Reduce expediting costs.
Product management	Cut unnecessary part introductions 20%. Increase part reuse. Align design and supply strategies. Facilitate early supplier integration.
Process cycles	Reduce spend analysis project cycles 30% to 50%. Refocus sourcing and business managers on strategic tasks

Source: [AberdeenGroup](#), September 2004

Contract Terms and Service Performance

Enterprises’ compliance focus is also evident in the high-level of interest in technology solutions to manage telecom contracts, specifically invoice contract term reconciliation, inventory/asset management, and electronic contract management. Many participants lacking these tools plan to use them within the next two years. In fact, our benchmark indicated that use of electronic contract management tools could double in the next two years.

This finding echoes related cost management and supply management benchmarks, which found that enterprises have prioritized contract management automation among their top three planned solution investments over the next 24 months. Aberdeen research further found that enterprises adopting contract management automation solutions reported significant benefits in costs, compliance, and operations (Table 6).

Telecom Sourcing and Procurement

Aberdeen’s 2004 benchmark recommended that enterprises leverage e-sourcing and e-procurement tools, such as reverse auctions, online RFx-based negotiations, and e-procurement applications for new service orders wherever possible since they could streamline sourcing cycles and create highly competitive bidding markets. The bad news, according to the latest benchmark, is that enterprises haven’t gravitated toward web-based tools as much as they have toward other tools to assist with telecom cost management. The good news? Their use could more than double within the next two years; the number of survey respondents indicating interest in using them outnumbered those who are already using them. Implementing these tools could be easier in companies that already use similar tools and services for purchasing non-telecom products and services. E-sourcing users have reported being able to negotiate average cost savings of about 15%.



Online sourcing tools create highly competitive bidding markets that return, on average, double-digit savings, according to previous Aberdeen research.

Table 6: Benefits of Contract Management Automation

Improvement Area	Performance Impact
Compliance management	Improve compliance 55%
Rebate/discount management	Improve 25% to 30%
Material/service costs	Reduce 2% to 7%
Evergreen contracts	Optimize auto-renewal terms
Contracting cycles	Cut contracting cycles in half
Procedures and terms	Standardize processes and terms to mitigate risks, ensure proper approvals, enforce policies
Documentation and reporting	Cut reporting cycles from days to minutes
Contract analysis	Analyze and maximize performance
Administrative costs	Reduce 25% to 30%

Source: [AberdeenGroup](#), June 2005

Because of poor spend and utilization visibility, as well as labor-intensive and fragmented buying processes, most enterprises re-source telecom contracts infrequently. But best-practice performers are leveraging e-sourcing tools, improved usage visibility, and enhanced market knowledge to increase the frequency and effectiveness of their telecom equipment and service sourcing to exploit fluctuations in market pricing and supply.

Governance: Who Should Oversee the Task?

Most enterprises that place one business function in charge of managing telecom costs give the job to either the finance or IT organization, according to the Aberdeen survey (Figure 6). And, close to three-quarters of top-performing companies in this survey have either organization in charge of managing telecom costs. Also, these two functions appear to deliver some good results, our respondents indicated. For instance:

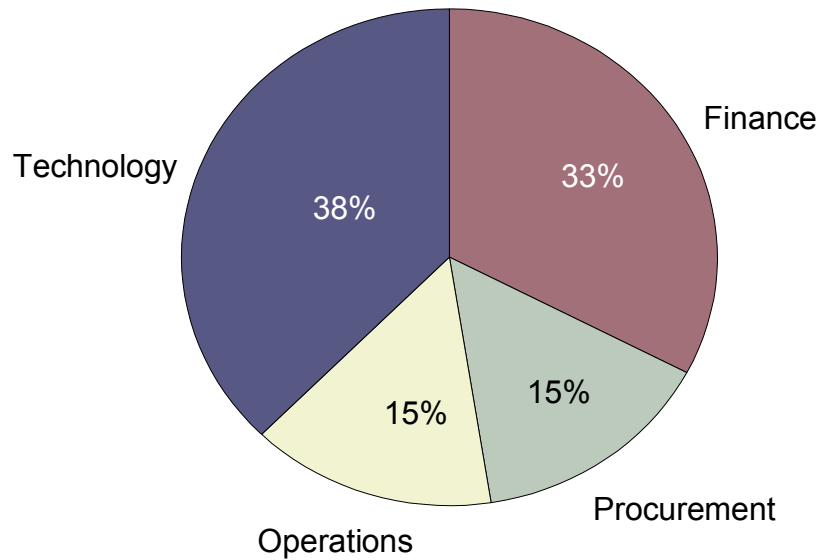
- **Results from most recent telecom sourcing activity:** 85% of enterprises whose IT organizations were leading their TTCM efforts experienced rate decreases, while 50% of companies with finance leading the way won better terms and conditions from suppliers.
- **Time to source a contract:** It takes an average of slightly less than three months for a finance-led organization to complete the sourcing of a contract. For the entire survey field, the average was slightly more than three months.

So, would finance or IT do a better job overseeing TTCM? Or might the procurement or operations function fare better? Aberdeen believes a formal program, centralized in one corporate function closest to the most critical data and the most informed at making decisions, is best suited for the role. The fact that so many enterprises place IT in charge, and



that they deliver some benefit, indicates companies that appear to have a stronger IT-business alignment.

Figure 6: Primary Enterprise Responsibility for Managing Telecom Costs



Source: [AberdeenGroup](#), February 2006



Chapter Four: Recommendations for Action

Key Takeaways

- Take a centralized approach to total telecom cost management, and place it in the hands of a corporate function that has the best visibility into what the enterprise spends. If you can't find anyone internally to lead the charge, consider outsourcing the work.
- Make full use of technology solutions that can help *after* the fact by scrutinizing invoices and examining charges against contract terms.
- Before you engage in a deal for telecom products or services, look to online tools, such as reverse auctions and online RFX-based negotiations, to help your organization win the best prices and terms possible.

Enterprises are focused again on growing revenue after several years of concentrating on cost reductions amid an economic slowdown. But cost reduction remains an important factor in improving profitability, and enterprises cannot take their eyes off that ball. Foremost, Aberdeen believes organizations need to focus on commodity items that they need to run their businesses but can control through a combination of process change and technology: contract labor, travel, and telecommunications.

Steps to Success

To ensure your enterprise is getting the most out of what it spends on telecom, Aberdeen recommends these courses of action:

- **Understand all telecommunications services spending and analyze it on an enterprise-wide basis.** Look not only at local/long-distance and data network access, but conference calling, toll-free services, and mobile devices. And spread the program across all divisions and geographies.
- **Centralize oversight of your TTCM program.** Aberdeen's research has found — in two research reports — that the most successful programs are handled by one corporate function, usually finance or IT. Aberdeen recommends that the function with the best visibility into the spend be designated to lead the charge.
- **Technology helps — in more ways than one.** Enterprises are finding that technology can help them reach their TTCM goals, starting with invoice reconciliation, auditing, and usage. While that focuses on ensuring you're paying only for what you're using and monitoring internal use, enterprises must look beyond that and take a more proactive approach. Contract management software can ensure that telecom providers are adhering to the deals you've worked out with them. In addition, more enterprises are discovering the value of web-based procurement tools, such as reverse auctions and online RFX-based negotiations, in finding providers that can offer the best possible deals.
- **Consider outsourcing.** Can't — or don't want to — handle TTCM? Consider outsourcing the work to a third-party specialty firm, which can allow your work-



ers to focus on the enterprise's core competencies. Aberdeen research has found that enterprises that took this course of action saw results similar to the enterprises that did the work themselves, such as decreased rates and quicker processing of reports and MACD requests. While you won't have a "direct" view into the spend, it's simpler to have to deal with only one contract: the one with the outsourcing provider.



Analysts' Profiles

Vishal Patel
Research Analyst
Global Supply Research
AberdeenGroup, Inc.

Vishal Patel focuses on the use of technology in the global supply management arena. With the rise of globalization and outsourcing, Patel is researching the role that software systems play in making processes such as strategic sourcing and supply management more efficient and value-adding.

Rick Saia
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Rick Saia focuses on the use of technology in the global supply management arena and most recently assisted in the development of research in Aberdeen's Information Technology practice area, especially the recent *SOA in IT Benchmark Report*, and current surveys on enterprise applications and network application processing. He has extensive experience writing and editing on information technology topics. His experience includes senior-level editorial positions at *Computerworld* and *Cutter Consortium*.

Sudy Bharadwaj,
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Sudy Bharadwaj oversees research programs, products, and services, as well as client development related to supply chain issues, including sourcing, spend management, contract management, procurement, and category-specific strategies. Prior to joining AberdeenGroup, Bharadwaj was vice president of Solution Delivery, Marketing and Presales for MindFlow Technologies, a leading strategic sourcing vendor. He has also led sales consulting teams at i2 Technologies and held other marketing and program management positions at Hewlett-Packard.



Appendix A: Research Methodology

In December 2005, **AberdeenGroup** examined the benefits that 90 enterprises have been realizing from total telecom cost management (TTCM) solutions, as well as the processes, metrics, and organizational factors that go into the management of telecommunications expenses and the sourcing of telecom products and services. The survey was conducted as a follow-up to a 2004 benchmark that identified the benefits TTCM solutions were delivering for enterprises.

The respondents, who came from a variety of industries, completed an online survey that included questions designed to determine the following:

- The percentage of telecommunications spending under proactive management;
- The degree of centralization to which enterprise TTCM programs were being guided, and which parts of the enterprise were primarily responsible for managing telecom costs;
- The specific technologies enterprises were using to help manage telecom spend and the technologies they're planning to implement over the next two years; and
- How much enterprises are spending on telecommunications and where their TTCM programs have been helping them save money.
- The benefits, if any, that have been derived from aftermarket and service parts management initiatives

Aberdeen supplemented this online survey effort with e-mail and telephone interviews with select survey respondents, gathering additional information on telecom cost management strategies, experiences, and results.

Responding enterprises included the following:

- **Job title/function:** The research sample included respondents with the following job titles: senior management, such as CEO, CFO or COO (23%); manager (23%); director (21%); staff (10%); CIO or IT leader (9%); internal consultant (8%); and senior vice president or vice president (8%).
- **Industry:** The research sample included respondents predominantly from services industries. Telecommunications services providers represented 20% of the sample, followed by finance/banking/accounting (13%). High-tech/software companies represented 18% of the respondent pool. Other sectors responding included construction/architecture/engineering, distribution, education, consumer electronics, food/beverage, health/medical/dental services, health and beauty aides, industrial equipment manufacturing, mining/oil/gas, paper/lumber/timber, public sector, retail, telecommunication equipment, transportation/logistics, travel/hospitality/restaurant, utilities, and wholesale.



- **Geography:** Most study respondents were from North America (65%), with 20% from Europe, 10% from Asia/Pacific, 4% from the Middle East and Africa, and 1% from South/Central America and the Caribbean.
- **Company size:** About 36% of respondents were from large enterprises (annual revenues above US\$1 billion); 36% were from midsize enterprises (annual revenues between \$50 million and \$1 billion); and 35% of respondents were from small businesses (annual revenues of \$50 million or less).

Solution providers recognized as sponsors of this report were solicited after the fact and had no substantive influence on the direction of *The Telecom Cost Management Process Benchmark Report*. Their sponsorship has made it possible for **AberdeenGroup** and *IndustryWeek* to make these findings available to readers at no charge.



Appendix B: Related Aberdeen Research & Tools

Related Aberdeen research that forms a companion or reference to this report include:

- [*Spend under Control Key to Cost Savings: The Category Spend Management Report Series 2004 – Telecom*](#) (June 2004)
- [*Best Practices in Telecom Cost Management*](#) (March 2005)
- [*The Category Spend Management Report Series 2004: Contract Labor*](#) (March 2004)
- [*The Category Spend Management Report Series 2004: Travel – Beyond Convenience and Safety Making Visibility Pay Off*](#) (June 2004)
- [*The Category Spend Management Report Series 2004: Advertising, Marketing and Printing – Policies Precede Procurement Automation but Technology Ensures Compliance*](#) (September 2004)
- [*The Category Spend Management Report Series 2004: Services Procurement Trends and Strategies in Europe – Selling the Savings to Change Corporate Culture*](#) (December 2004)

Information on these and any other Aberdeen publications can be found at www.Aberdeen.com.



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Aberdeen delivers unbiased, primary research that helps enterprises derive tangible business value from technology-enabled solutions. Through continuous benchmarking and analysis of value chain practices, Aberdeen offers a unique mix of research, tools, and services to help Global Business Executives accomplish the following:

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- PRIORITIZE operational improvement areas to drive immediate, tangible value to their business
- LEVERAGE information technology for tangible business value.

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- EXPAND CUSTOMERS, by fortifying their value proposition with independent fact-based research and demonstrating installed base proof points

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