Telecom Expense Management Options
Internal versus Outsourcing – Return on Investment View

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There are over 6,000 cell phone plans in the US and over 1,000 long distance plans. These plans are often complex, difficult to understand and even more difficult to verify proper billing. And what about managing all those cell phones? They get lost, broken and even their use can be abused. These are only a few of the difficulties of managing telecom infrastructure in an enterprise corporation.

Telecom invoices are typically over-billed in the range of 12 to 18% depending on the telecom vendors and the types of services being utilized. Between 5 and 10% of all cell phones and their accounts require monthly attention to correct errors or handle other problems. These situations, and many others, are forcing telecom managers to either find an approach that allows them to manage these large expenses internally or to outsource the process.

This white paper analyses the internal versus outsource decision from an ROI perspective. Although the numbers in this analysis may not be relevant to any one specific corporation, the conceptual approach is valid and can be used as a road map to conduct a ROI analysis.

The internal approach

Software is available to the telecom manager, which allows him / her to more efficiently over see the inventory of services, invoicing process and manage the situation internally. The cost of good software is generally $120,000, and will require the purchase of periodic software upgrades. The effort may also require a new server or computers for the staff. Other considerations are training of staff on how to use the software.

Once the software is purchased, the IT manager needs to be sure they have the proper skills on their staff to understand telecom contracts and invoices. To obtain the maximum benefit from the software, the primary users should be experienced telecom experts. Not just anyone can do this job successfully! Experts generally cost about $75, 000 per year in salary and benefits.

Another consideration is the turnover of personnel. Personnel will turnover for many reasons from natural career progression to illness, etc. Each time the staff change, the full transfer of knowledge is unlikely to occur causing the manger to pay for more training.

From a strategic viewpoint the IT manager needs to realize that this effort is generally not in line with the primary business of the company. The manager needs to ask if establishing a long term strategy to handle the telecom issue in house is in the best interest of the company.

Return on Investment (ROI) Example

A medium sized company provides natural gas delivery throughout a major region of the US. They require a large, widely dispersed service staff to maintain reliable gas flow.

General Assumptions:

75 Telephone circuits
70 Frame relays
1,400 Phones
900 Cell phones
80 Long distance accounts
60 Pagers
40 Calling cards
3 T1 lines
Typical monthly expense for these assumptions prior to implementation of a cost reduction effort: $250,000
Expected monthly savings – 12% to 18%: $30,000 to $45,000

Internal Management Example:

Original software purchase:	$120,000
Training for one week plus travel expenses:	$ 6,000
Service contract – 3 years:	$ 30,000
New server:	$ 2,000
New PC's:	$ 2,500
One – telecom expert, per year:	$ 75,000
One clerical / admin., per year:	$ 40,000
Additional training with staff turnover – every three years:	$ 6,000
Consulting fees	$ -0-

Out sourced Example:

Original software purchase:	$ 0
Training for one day plus travel expenses:	$ 2,000
Service contract – 3 years:	$ 0
New server:	$ 0

New PC’s:	$ 2,500
No – Telecom experts:	$ 0
No clerical admin:	$ 0
Additional training with staff turnover – every three years:	$ 0
Set-up fee:	$ 5,000
Consulting fees	$ 3,000
Monthly fee:	$ 7,000

The spreadsheet below shows how each piece of data is used and then calculates the Net Present Value of both cash flow streams on a pre-tax basis. This analysis assumes the same cost reductions and other hard cost savings are equal in both scenarios.

It is clear that the out sourced option provides a better option from a strict financial basis. Following the analysis is a further explanation of benefits that are not easy to quantify, but should be taken into account in the final decision.

Cash Flow Comparison of In-House and Outsourced Telecom Expense Mangement

In-house Solution

Expense Item		Intitial Investment	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Original software purchase:		$ (120,000)						$ (120,000)
Training for one week plus travel expenses:		$ (6,000)						$ (6,000)
Service contract – 3 years:			$ (12,000)	$ (12,000)	$ (12,000)	$ (12,000)	$ (12,000)	$ (60,000)
New server;		$ (2,000)						$ (2,000)
New PC’s:		$ (2,500)						$ (2,500)
One – telecom expert, per year:			$ (75,000)	$ (75,000)	$ (75,000)	$ (75,000)	$ (75,000)	$ (375,000)
One clerical admins, per year:			$ (40,000)	$ (40,000)	$ (40,000)	$ (40,000)	$ (40,000)	$ (200,000)
Additional training with staff turnover – every three years:			$ -	$ -	$ (6,000)	$ -	$ -	$ (6,000)
		$ (130,500)	$ (127,000)	$ (127,000)	$ (133,000)	$ (127,000)	$ (127,000)	$ (641,000)
Expected savings at 15%		$ -	$ 450,000	$ 450,000	$ 450,000	$ 450,000	$ 450,000	$ 2,250,000
Net savings		$ (130,500)	$ 323,000	$ 323,000	$ 317,000	$ 323,000	$ 323,000	$ 1,609,000
Net Present Value	$ 824,610							
Discount Factor	15%							

Out Sourced Solution

Expense Item		Intitial Investment	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Original software purchase:			$ -	$ -	$ -	$ -	$ -	$ -
Training for one day plus travel expenses:		$ (2,000)						$ (2,000)
Service contract – 3 years:			$ -	$ -	$ -	$ -	$ -	$ -
New server;			$ -					$ -
New PC’s:		$ (2,500)						$ (2,500)
One – telecom expert, per year:			$ -	$ -	$ -	$ -	$ -	$ -
Two clerical admins, per year:			$ -	$ -	$ -	$ -	$ -	$ -
Additional training with staff turnover – every three years:			$ -	$ -	$ -	$ -	$ -	$ -
Set-up fee:		$ (5,000)		$ -	$ -	$ -	$ -	$ (5,000)
Consulting fees:			$ (3,000)	$ -	$ -	$ (3,000)	$ -	$ (6,000)
Monthly fee:			$ (120,000)	$ (120,000)	$ (120,000)	$ (120,000)	$ (120,000)	$ (600,000)
		$ (9,500)	$ (123,000)	$ (120,000)	$ (120,000)	$ (123,000)	$ (120,000)	$ (615,500)
Expected savings at 15%		$ -	$ 450,000	$ 450,000	$ 450,000	$ 450,000	$ 450,000	$ 2,250,000
Net savings		$ (9,500)	$ 327,000	$ 330,000	$ 330,000	$ 327,000	$ 330,000	$ 1,644,000
Net Present Value	$ 949,902							
Discount Factor	15%							

Additional benefits to outsourcing:

- Reduced staffing through business process out sourcing
- Improved management of expenses / better executive reporting
- Identify and eliminate “phone” abuse and theft, such as cell phone abuse
- Efficient use of services
- Reduced or optimized phone services and hardware
- Improved interdepartmental communications
- Rapid, accurate budget development
- Seamless transition of staffing responsibilities when staff turnover
- Disaster recovery of invoice data / history
- Improved contract negotiation
- 24/7 access to all invoice data and reports
- Eliminate need for internal staff to manage Moves / Adds / Changes / Delete

These additional benefits to outsourcing free-up time of staff to focus on the corporation’s core competency. It also places the staff, which is responsible for these expenses in an oversight position rather than a reactive corrections mode. Every corporation observed by the author has shown a high level of satisfaction. Several new clients engaged in the process, but were leery of the expected benefits. To a client they all have become extremely satisfied and have frequently requested additional reporting and the support of more invoices.

To keep focus on the prime business and to actually accrue larger savings, the BPO choice is the best way...

Tariff Affiliates, Inc. was started in 1991 to address the need of small companies to get on the most beneficial tariffs. In the past sixteen years several hundred clients have been serviced including Fortune 500 companies, franchises, not-for-profits and schools. Tariff Affiliates has saved several clients in excess of $1 million each. Tariff Affiliates was one of the first expense management companies to develop a database (Tarisoft) for efficient expense management and superior client care. Tarisoft has been continuously upgraded since 2000, and is now in its third major release.

Located in Victor, NY, Tariff Affiliates, Inc. provides every client with their own personal account team. Tariff Affiliates is dedicated to using Lean Practices to improve their internal operations and can bring this skill to bear on any client’s processes as well.

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