

Telecom Expense Management Feature Article

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Aberdeen Group: Telecom Expense Management Key for Enterprise Success



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Telecommunications bills may seem like a rather mundane part of an enterprise's budget. But, mundane or not, telecom expenses are a noteworthy expense deserving of proper management. In a November, 2006 report, research firm Aberdeen ([News - Alert](#)) Group said that, on average, telecom and related network services eat up 3.6 percent of enterprise revenues.

That's certainly nothing to sneeze at.

The report, "The Cost of Doing Nothing: The Total Telecom Cost Management Benchmark Report," is based on a survey conducted during September, 2006 of various sized enterprises and how telecom expenses impact them.

Aberdeen also referenced previous research it conducted for additional perspective.

The report examined in-depth how and when enterprises engage in telecom expense management, and the impact that management has on cutting costs by, for example, eliminating billing errors.

It turns out that whether or not telecom expenses are managed depends at least in part on what type of telecom expenses are in question. Aberdeen found that, on average, 67 percent of enterprises proactively manage wireline expenses, but only 57 percent apply similar oversight to wireless costs.

Telecom cost management, or its absence, also depends on the extent to which enterprises prioritize this as a cost-saving activity. Cream-of-the-crop enterprises—those Aberdeen refers to as "best in class"—proactively manage 90 percent or more of their telecom expenses.

A lot can be at stake then telecom expense management is not employed.

"Enterprises forfeit 12 percent to 18 percent, if they do not have a proactive approach to cost management that leverages technology and process improvements through business process outsourcing, hosted or licensed software," Aberdeen said in the report.

A key element of telecom expense management is the ability to pay invoices on or before their due dates. Aberdeen uncovered a surprising figure in the course of its research: 65 percent of survey respondents said they incur payment penalties.

Late fees “may seem insignificant at .5 percent to 2 percent, but the impact over several months produce an average of 2.9 percent late payment penalties,” Aberdeen noted. “The effective yield is higher if one considers the compounding effect, redeploying these funds to reduce corporate capital requirements or putting the funds to work in an investment at today’s interest rate of 5 percent.”

Clearly, even a basic thing like paying bills on time can have a big impact. Although telecom expenses management can go far beyond the basics in its ability to save enterprises money, focusing on the basics is critical to getting started.

Automating as many processes as possible is also a key element of successful telecom expense management. Aberdeen reported average labor cost savings (after costs of the programs) of 21 percent when enterprises use business process outsourcing, and 31 percent savings when invoice-processing software is used.

Other methods for reducing expenses by engaging in telecom expense management include reverse auctions (average cost reduction of 33 percent) and service order management software/outsourcing (average savings of 12 percent).

Aberdeen found that, during the past 20 years, the trend has one of deflating telecom expenses, but those potential savings are offset by ineffective cost management on the part of enterprises, which generally find that their spending on telecom services continues to rise.

This is true of traditional wireline services and wireless; in the case of the latter, per minute and unit cost per minute expenses are decreasing but companies nonetheless see their expenses going up.

“Enterprises need to establish policies and metrics to control these expenses as part of a Total Telecom Cost Management (TTCM) program that covers all telecommunications expenses,” Aberdeen advised.

The report further advises enterprises to engage in telecom expense management by taking the following specific actions, designed to achieve “reduction of telecom costs and process improvements for reductions in labor expenses and management of telecom expenses.”

- Centralize procurement for all telecom services with a single service order management system
- Aggregate all telecom expenses using an invoice-processing system—using business process outsourcing, hosted, or licenses software

- Track specific telecom expense metrics, such as monthly expenses from the supplier and average expense per employee
- Use specific metrics to track labor costs associated with telecom expense management, such as service order management, and Move Add Change Disconnect (MACD) management

When it comes to telecom expenses, Aberdeen stressed in its report that any enterprises not taking actions to manage expenses is losing money.

“The cost of not acting is real,” Aberdeen emphasized in its report. “Every dollar brought under management, drives savings to the bottom line.”

Complimentary copies of Aberdeen's report are available for the next eight weeks at www.aberdeen.com/link/sponsor.asp?cid=3611.