



Total Telecom Cost Management

*Reducing Communications
Costs 25%*

Executive Summary

Managing telecommunications costs is a daunting task whether you're a FORTUNE 500® company or a small business. Given the number of telecom and network services that a typical company uses, and the hundreds or even thousands of monthly invoices that are received, it is next-to-impossible to maintain good visibility into these business expenses. These are expenses which, according to IDC Research, are usually the second largest indirect expense within a company, and third or fourth largest overall.¹ By applying the discipline of Total Telecom Cost Management, companies can reduce their telecom costs by up to 25% (see Figure 1: TTCM ROI). Properly implemented, TTCM will become a Decision Support System for upper management. It is comprised of three processes, each solving different problems areas: validation, optimization, and outsourcing.

Accounts/payable departments, for example, often send bill payments without careful scrutiny. However, it has been estimated that **more than half** of all telecom service invoices contain some type of inaccuracy. These inaccuracies cause 7–12% of the total dollar expense to be in error.² Even when accounts/payable employees do scrutinize bills, they typically don't have the specialized knowledge to thoroughly decipher the bills, so the savings yielded are minute compared to the time spent. TTCM addresses these problems through **validation** processes.

The typical company uses a variety of communications-related services including: mobile/wireless, long-distance and local phone services, conference services, VPN, PBX, email, voicemail, etc. With so many carriers—providing different services—it is a challenge for companies to thoroughly understand how much they spend on telecom services or why they select the plans they use. Most companies don't have the internal resources (trained staff, expensive software tools) to constantly monitor and select the best telecom deals. In addition, choosing the most appropriate telecom vendors requires a large investment of employees' time. The resulting lack of visibility into the communications landscape makes it difficult for senior management to make optimal business decisions. TTCM addresses these problems through **optimization** processes.

To remain competitive, companies must consider not only automating, but in some cases outsourcing non-core business processes. Many telecom-related processes have become burdensome for companies the last few years. Examples include pricing and contract negotiations, SLA enforcement, dispute management—even managing the sheer volume of telecom invoices. TTCM can address these problems through **outsourcing**.

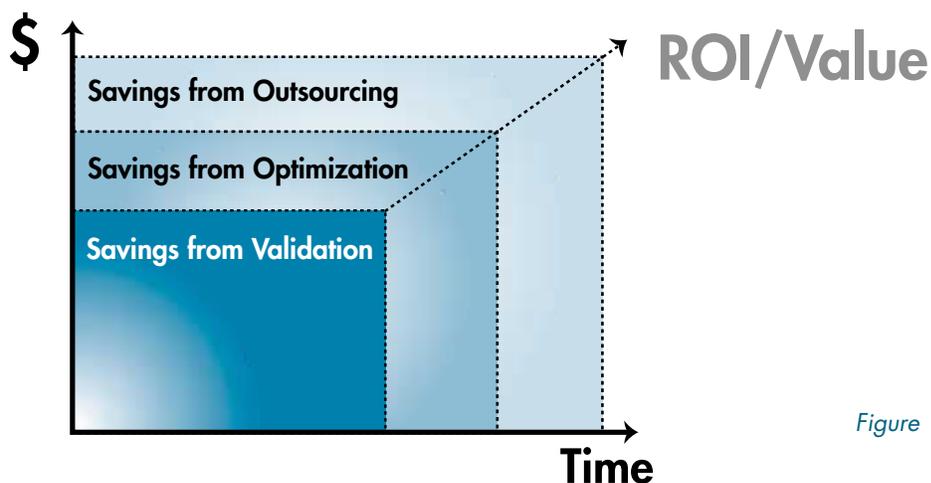


Figure 1: TTCM ROI

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What Is Total Telecom Cost Management (TTCM)?

The average mid-market enterprise spends \$26 million a year on telecommunications services, and the average FORTUNE 500 Company spends \$116 million year.³ But does your company know whether or not these expenses are justified? How much would your profits grow if your telecom expenses could be reduced? Consider the bottom line: trimming indirect expenses such as telecom services boosts profits. Your company, in turn, gains the edge over the competition.

Total Telecom Cost Management (TTCM) enables businesses to address these very issues. TTCM isn't a people-problem that can be solved if your employees in accounts/payable work smarter. True TTCM relies upon software solutions, consulting, hosted applications, and business process outsourcing to reduce unnecessary costs related to the inefficient management of telecom expenses.⁴

TTCM solutions analyze your overall spending; they scrutinize your local, long distance, wireless, data, and PBX/CENTREX bills. They will also investigate your calling cards, as well as your conferencing and pager plans. As Figure 2 below illustrates, the TTCM full life cycle takes into account everything from monitoring, purchasing, and analyzing to planning and outsourcing.

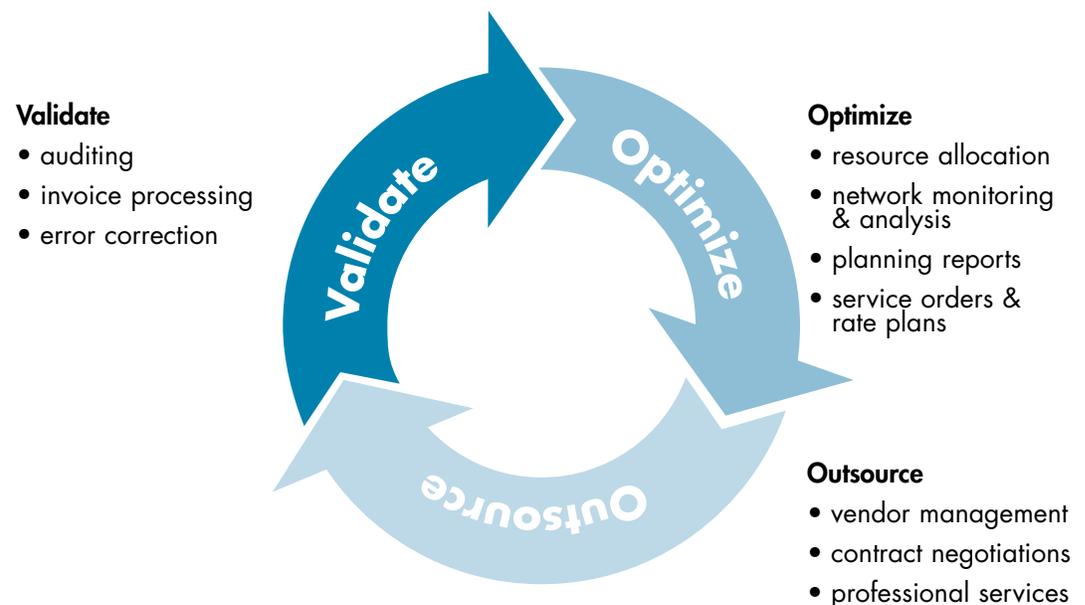


Figure 2: TTCM complete life cycle

In other words, after analyzing all of your bills and plans, a TTCM solution will then make recommendations to reduce your total telecom costs through systemic, strategic sourcing of telecom services and ongoing contract compliance.

How does TCM save money?

To understand the benefits of TCM, you must realize that it is much more than recognizing simple billing errors. TCM takes into account all of the necessary telecom expenses—minimizing costs, while maximizing the value of the services you receive. By drilling down and analyzing your telecom spending, then presenting the data in a visual, easy to understand fashion (see figure 4 in this report), TCM becomes a true decision support system for your management team.

There are three areas in telecomm and network services where TCM can help reduce your expenses: validation, optimization, and outsourcing.

Validation

Validation involves making sure bills are correct, and catching any billing or payment errors that might have occurred. Companies often invest many hours with their accounts/payable employees, who only search by hand. Moreover, since telecom bills are notoriously complex and time consuming, accounts/payable employees often skip validation just to keep up with the volume.

However, if validation is performed correctly, companies can reap the rewards. Savings are achieved through one-time audits or on-going audits. The most obvious benefits are monetary refunds and credits associated with billing errors. In addition, proper auditing and validation procedures provide the necessary data for higher-level TCM functions.

Figures 3a, 3b and 3c illustrate how typical FORTUNE 500 companies benefit from TCM. The ROI for TCM solutions are dramatic.

Fortune 500 In House Telecom Cost Management

	Year 1	Year2	Year 3	Year 4
Annual Telecom Service Spend	100,000,000	100,000,000	100,000,000	100,000,000
Annual Number of Invoices Received	15,000	15,000	15,000	15,000
Number of Monthly Invoices Processed Per Dedicated Accounts Payable Employee	250	250	250	250
Number of Accounts Payable Employees Required For Telecom Invoice Processing	5	5	5	5
Average Accounts Payables Employee Salary	35,000	35,000	35,000	35,000
Annual Cost of Telecom Invoice Processing	175,000	175,000	175,000	175,000
On Staff Telecom Billing Specialists	-	-	-	-
Average Telecom Billing Specialists Salary	60,000	60,000	60,000	60,000
Annual Cost of Telecom Invoice Validation	-	-	-	-
Total In House Cost of Managing Telecom Spend	175,000	175,000	175,000	175,000
Total Hard Dollar Savings	-	-	-	-
Return On Investment	n/a	n/a	n/a	n/a

Figure 3a: Companies not implementing TCM. Aberdeen Group, Apr. 2003

Fortune 500 In House Telecom Cost Management

	Year 1	Year2	Year 3	Year 4
Annual Telecom Service Spend	100,000,000	100,000,000	100,000,000	100,000,000
Annual Number of Invoices Received	15,000	15,000	15,000	15,000
Number of Monthly Invoices Processed Per Dedicated Accounts Payable Employee	250	250	250	250
Number of Accounts Payable Employees Required For Telecom Invoice Processing	5	5	5	5
Average Accounts Payables Employee Salary	35,000	35,000	35,000	35,000
Annual Cost of Telecom Invoice Processing	175,000	175,000	175,000	175,000
On Staff Telecom Billing Specialists	6	6	6	6
Average Telecom Billing Specialists Salary	60,000	60,000	60,000	60,000
Annual Cost of Telecom Invoice Validation	360,000	360,000	360,000	360,000
Total In House Cost of Managing Telecom Spend	535,000	535,000	535,000	535,000
Required On Staff Telecom Billing Specialists	6	6	6	6
Average Spend Validation Per Specialists	3,000,000	3,000,000	3,000,000	3,000,000
Percentages of Invoices Validated	18%	18%	18%	18%
Expected Savings on Validated Spend	4%	4%	4%	4%
Total Hard Dollar Savings	630,000	630,000	630,000	630,000
Return On Investment	18%	18%	18%	18%

Figure 3b: Companies using internal resources for validation. Aberdeen Group, Apr. 2003

Fortune 500 TTCM Solutions

	Year 1	Year2	Year 3	Year 4
Annual Telecom Service Spend	100,000,000	88,000,000	80,960,000	77,721,600
TTCM Cost Basis (Conservative Estimate)	2.5%	2.5%	2.5%	2.5%
TTCM Application Cost	2,500,000	2,200,000	2,024,000	1,943,040
Number of Billing Specialists to action TTCM information	2	2	2	2
Average Billing Specialists Salary	60,000	60,000	60,000	60,000
Number of Accounts Payable Staff Now Required with Automated Processes	1	1	1	1
Average Accounts Payables Employee Salary	35,000	35,000	35,000	35,000
Internal Management Costs	155,000	155,000	155,000	155,000
Total TTCM Cost Basis	2,655,000	2,355,000	2,179,000	2,098,040
TTCM Average Correction Rate of Telecom Spend	12%	8%	4%	4%
Savings Associated with Validation	12,000,000	7,040,000	3,238,400	3,108,864
Total Hard Dollar Savings	12,000,000	7,040,000	3,238,400	3,108,864
Return On Investment	352%	220%	60%	60%

Figure 3c: Companies leveraging TTCM Software Solutions. Aberdeen Group, Apr. 2003

Optimization

But validation is not everything as you can see. Validation only catches “visible” errors in the billing process. In fact, enterprises realize only an 8–12% savings when performing validation internally. When the whole TTCM lifecycle is performed, however, companies may save 25% or more.

Once validation has occurred, companies can move forward and apply knowledge from validation towards the more informed use of suppliers and end users. By drilling down and using analysis software programs on this data, you can improve budget planning, leverage your buying power, change accountability, and alter many other processes.

Outsourcing

Internal jobs that do not contribute to your core competency can be more expensive in the long run. The internal operational costs of managing billing, vendors, and employees are high. By outsourcing to TTCM experts, your business can do the same jobs at a lower cost—and, most likely, at a higher quality.

There are several benefits to outsourcing. Your company will be able to focus better on core competencies. You'll also be able to control your headcount, experience faster invoicing, and notice more organizational flexibilities.

Why Your Company Should Become TTCM-Capable

Telecommunication has become the third or fourth largest expense for companies.⁵ Not surprisingly, a very large amount of time is now devoted to performing secondary tasks—processing invoices, negotiating rates/expenditures, and negotiating with outside vendors. Both time and money may be better spent on increasing company/customer relationships rather than “nickel-and-diming.”

Management has to decide whether spending their time processing and trying to analyze invoices is more important than focusing on the strategic goals of the company as a whole. Day-to-day tasks should be delegated to the appropriate people who have those tasks, whether it's bookkeeping, or having enough pencils in the storage room. Management's time should be applied to projects that are more strategic to the company as a whole, and which serve to increase the value of the company.

Below are the main problems that many companies face with regards to their telecom expenditures:

- *Poor bill management, i.e., overpayment*
- *Spending too much time with vendors*
- *Inability to control and plan networking costs*
- *Lack of internal visibility*

As mentioned earlier, all of these problems crop up because it is very difficult to address all of these telecom issues internally.

In order to become TTCM-capable, your company needs a complete solution, including experts and specialized software to analyze telecom bills, rates, plans, and vendor offerings. Companies, such as Optelcon, offer complete TTCM solutions, tailored to specific requirements and needs and may be installed on-premise utilizing internal servers, or hosted offsite as an ASP-based platform.

OpTelCon: A Total TCCM Solution with Tele-Commander

OpTelCon's software package, Tele-Commander, fulfills all the requirements outlined in this paper for a robust TCCM solution and provides a complete decision support system.

With telecom costs escalating as the third largest expense per employee for a company,⁶ businesses need a strong solution that can tackle those non-core business functions.

Management cannot worry about late bills or vendor management—they have to focus on the reason why they exist.

Tele-Commander can be used as either a licensed software package or as an ASP-based software package. ASP solutions avoid large capital outlays and the necessity for internal staff and equipment. Tele-Commander then helps you implement the right services, at the right time, with the right vendor, and at the right price.

Unlike the competition, Tele-Commander addresses the main problems that many companies face in regard to their telecom expenditures:

Billing Management

Tele-Commander helps your accounts/payable department interpret telecom-related invoices so you do not run the risk of over-paying. Tele-Commander makes it easy to track and interpret telecom invoices. Moreover, Tele-Commander smoothes the processes of auditing invoice and rate errors, unused discounts and credits, and it corrects penalties and fees. Other tasks that are utilized are bill receipt, electronic billing, manual entry, inventory, bill data, bill audit, dispute identification, and GL coding /AP feed.

Tele-Commander's correction rate for telecom billing averages 29.4%.

Telecom Vendor Administration

With Tele-Commander you can streamline the process of having to negotiate with vendors. Tele-Commander helps you deal easily with contract negotiations, service problems, and carrier relations. Tele-Commander also aids with pricing, contract/SLA negotiations and renegotiations, SLA enforcement, and dispute management.

Network Optimization and Planning

Before a company can begin to optimize its current telecom assets, or plan its future requirements, it must have corporate-wide visibility and situational awareness of how those assets are being used today. This extends beyond "what are we buying" and "how much do we pay for it." It is necessary to properly assign costs and usage to specific departments within the organization. Yet, in a large organization, it is nearly impossible to match all internal moves, adds, changes, and disconnects against the invoices—much less determine what the optimal rate plans would be for each group of users. This is where Tele-Commander begins.

Tele-Commander assesses how your company uses a particular network resource, and reports its performance. Tele-Commander also improves communications' asset utilization, "right-sizes" telecom infrastructure, leverages emerging technologies to reduce costs, and optimizes workforce productivity. OpTelCon provides the tools to manage your current spending, and provide the information you need to do proper planning (and budgeting) for the future.



Figure 4: Example screen shots showing the drill-down capability of Tele-Commander

Conclusion

With OpTelCon's Tele-Commander, businesses of all sizes can tackle these TCM issues. Tele-Commander excels at reducing unnecessary costs that bog businesses down. So instead of having your management team focus on multiple telecom problems, OpTelCon enables managers and your accounts/payable staff to focus on the company as a whole—to keep the company moving forward to meet its goals.

About OpTelCon

Optimus Telecommunications Consultants, LLC (OpTelCon) was founded by Robert J. Pommer in 2003. Mr. Pommer was the co-founder and Vice Chairman of Universal Access, a leading publicly traded, wholesale and government telecommunications integrator. Mr. Pommer and his team specialized in purchasing, provisioning, and optimizing hundreds of millions of dollars in multi-vendor network services for some of the largest carriers.

OpTelCon takes a very different approach to traditional revenue assurance and cost management functions. No company specializes in everything; however, OpTelCon, in addition to its own unique skills, acts as an "optimization integrator." By leveraging the industry's best of breed in Network Optimization, Cellular Billing Optimization, Network Grooming, Cost Recovery, Billing Audit, Invoice Management, Invoice Validation, Invoice Consolidation, Inventory Management, Benchmarking, Contract Negotiations, Telecommunications Consulting, Disaster Planning, Profit Recovery, Provisioning and overall Cost Management, OpTelCon provides a complete approach to cost optimization.

OpTelCon's team has extensive operational experience and approaches cost optimization from every angle. In addition to making sure making sure your bills are accurate, OpTelCon will make sure that your contracts, carrier selections and network configurations are the truly "optimized."

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¹ IDC Research, 2002

² Aberdeen Group 2003

³ Telecom Cost Management Buyer's Guide, "The Aberdeen Group, 2003

⁴ "Total Telecom Cost Management Buyer's Guide"

⁵ QuantumShift, 2003

⁶ "Total Telecom Cost Management Buyer's Guide"