



Eternal Vigilance is the Price of Telecom Savings

With apologies to Voltaire, our experience suggests that eternal vigilance is the price of telecom savings. Regardless of industry, inside most middle market companies, if we could pick one spending category with the highest probability of achieving savings, it would almost certainly be telecom. One of the major benefits of telecom sourcing is the ability to drive savings without material disruption to the business—or a perceived threat to the purchasing organization. But this alone does not fully explain the opportunity telecom presents.

In organizations smaller than the Fortune 500, telecom spend is typically managed by an engineer who administers the function, rather than a professional sourcing manager. In addition, because procurement rarely controls telecom spend, the group is often not threatened by third-party experts that come with targeted recommendations and strategies (unlike other spend categories for which they have direct sourcing responsibility).

The individual—or handful of individuals—managing telecom are usually specialists with excellent technical knowledge of connecting systems into a provider's backbone or cloud, but few have experience with strategic sourcing. In the lingo of the business, they are "wires and pliers" types of engineers or technicians. Given that they're not oriented towards cost reduction, many will willingly accept a discount between 5-10% when a contract is up for negotiation. But what they don't know is that the actual savings they could achieve is a multiple of what a provider usually offers up. Add to this the fact that most organizations have decentralized billing, ordering and payment for telecom, and it becomes clear why such a large opportunity exists across the telecom spectrum including voice services, wireless, and data.

When it comes to achieving telecom cost reduction, it is imperative to not only negotiate the right packages and rates, but to insure that providers are not overcharging—or charging the tariff rate—for different services. This requires a close examination of line-item level detail at the invoice level not to mention making sure that the optimal services were specified in the first place. Our experience suggests that the majority of invoices have some types of errors. For example, in the case of wireless we often find misapplied programs or lines with little or no usage. In the case of voice, there are often significant errors such as misapplied designs, configurations and rates which exceed that of the market average or the accurate negotiated rates. Additionally, multiple country rates are not discounted.

When it comes to understanding demand information, many companies over or miss-specify requirements. For example, in the case of voice services, it is common to see one site with a dedicated circuit while multiple other locations have switched services that rely on local providers. The result for the sites relying on switched services can be charges as much as 3 cents per minute above what they could optimally be paying in a dedicated environment. Regarding frame relay or MPLS data, we often observe companies who buy many times the actual port capacity they will need to support their PVC throughput. This often occurs because an organization believes it will ultimately have the need for this type of capacity, but all too often, this expected requirement never materializes.

In the case of wireless, we often find similar opportunities to more accurately model the exact types of services an organization needs. Perhaps the most basic wireless approach is to "right-size" plans based on the number of minutes an organization actually uses. The key, however, is to do this on a regular basis, every few months to see if the number of minutes required changes. More advanced wireless demand and specification management strategies include plan/minute pooling, data services and handheld device negotiations.

Often, though, the major savings from telecom sourcing initiatives come from better contracting rather than changing hardware or existing services for new ones. Many organizations believe that they have negotiated favorable telecom contracts only to realize that the discounted rates purchased for a large office location or headquarters do not apply to remote facilities—which can be charged at the maximum "tariff" rate for similar services. This is why it is critical to negotiate, implement and monitor a master contract that takes into account the service requirements across all facilities.

With detailed—or expected—usage patterns in hand, it is possible to negotiate significant savings from a preferred provider. Often times these savings will average at least 30% of overall spend—sometimes as high as 45%. In one case, we saw a consulting company negotiate a 90% reduction off of a previous service used by its client. Many of these savings numbers represent write-downs from incumbents, making it relatively straightforward to implement savings immediately. The essential component to achieving savings from incumbents is to have accurate price benchmarks based on service and usage requirements. Paladin Associates focuses significant effort on maintaining an accurate list of benchmarks to make these types of savings numbers possible.

Even in the case where a contract was recently renegotiated in-house by a non-telecom sourcing expert, it's often possible to open up a contract to additional negotiation by bringing to the table outside price benchmarks that show that an organization is paying too much. With this type of benchmarking data, it is also possible to negotiate clauses such as "most favored customer" that mandate that should prices fall within a set time period for other customers (e.g., 12–18 months), that the provider adjust the rates accordingly. Of course the onus is on the company to prove—by staying current with benchmark data—that prices have shifted in the market. After all, eternal vigilance is the price of telecom savings. ■

Do you believe that your organization has a telecom savings opportunity? If so, don't hesitate to contact us. In less than a few weeks, Paladin can provide a comprehensive assessment of the types of telecom savings opportunities that your company might be missing out on. Since we are willing to work on either a contingency or gain-share basis, there is no cost or risk to your organization. Contact us today:

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