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The Conundrum of Managing International Telecom Expenses

April 2007

— Underwritten, in Part, by —

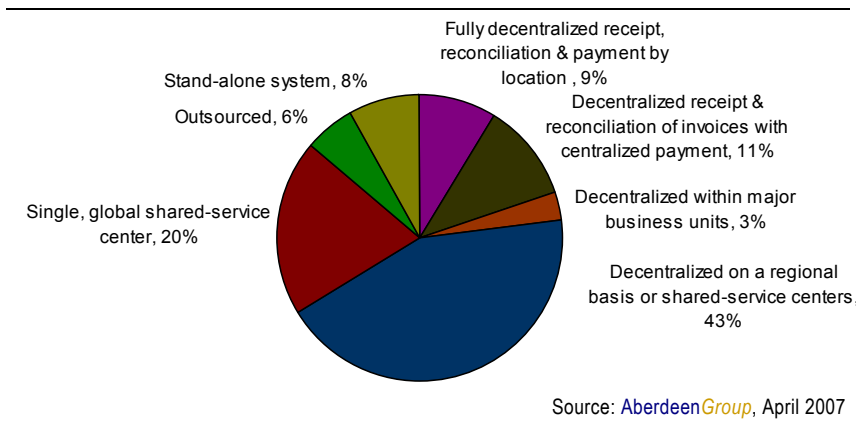
Executive Summary

The top challenge to managing international expenses reported by 67% of enterprises is the global application of consistent business accounting rules. Best in Class performers use technology to drive standardization and consistency in how they manage telecom expenses. An obstacle to achieving standardization comes

from decentralized processing of telecom invoices. Instead, 75% of respondents respond to the conundrum of international telecom expenses, and they start with sourcing. Enterprises fail to capture gains

from sourcing because they do not have technology to ensure contract compliance. In fact, laggards do not even measure savings from their sourcing initiatives.

Figure 1: Decentralized International Telecom Expense Mngmt



Best in Class Performance

Aberdeen used four key performance indicators (KPIs) to distinguish Best in Class enterprises. On average, Best in Class enterprises reported improvements of:

- 24% projected sourcing cost savings as a percent of total spend
- 91% success rate for claims filed
- 8.5% audit savings issues identified & secured as credits
- 31% reduction in FTE's to manage network expenses

Competitive Maturity Assessment

Survey findings show that Best in Class performers share similar characteristics:

- Best in Class performers are **two times more** likely to have technology that provides accurate forecasting and accrual of expenses and credits compared to all others.
- Best-in Class organizations are **two times more** likely to monitor their realized cost reduction savings on monthly basis.

Required Actions

- To achieve Best in Class performance enterprises must implement programs that capture the gains from global sourcing initiatives with automated invoice processing, and the application of standardized business rules global for expense reporting.

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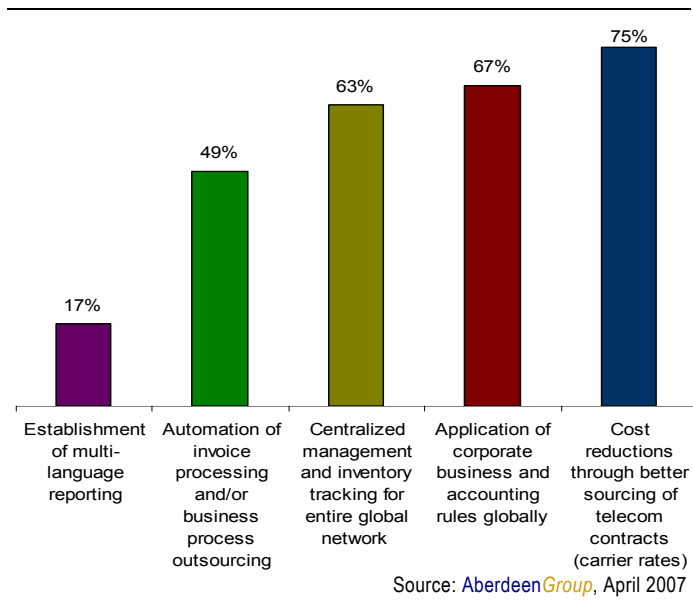
Chapter One: Benchmarking the Best in Class

Fast Facts

- 74% of enterprises report that their top pressure is migration to new network technology (e.g. unified communications, VoIP, MPLS etc.)
- 63% of enterprises with international business and operations site “the accuracy of their inventory and data for services being used” as the top challenge to managing telecom expenses.

Enterprises must deal with pressure resulting from new communications technology. This pressure is compounded by lack of automation cited by 44% of our respondents to manage their inventory and lack of standardization in how they manage telecom expenses. Today, 75% of enterprises start with sourcing when managing international telecom expenses. The second and third actions, cited by 63% of our respondents, get to the real challenge of managing international telecom costs by standardizing how expenses are processed and reported for the global network.

Figure 2: Implementing International Telecom Cost Management



Competitive Maturity Framework

Aberdeen used four criteria to distinguish Best in Class enterprises from Industry Average and Laggards. These key performance indicators (KPIs) are *operational* – reduced operational costs, and *hard dollar expense reduction* – sourcing savings that are booked and realized and better audit results. Table 1 defines Best in Class performance and summarizes this study’s findings. Readers should note the disparity between 75% of enterprises that look to sourcing, and the low gains reported from sourcing in Table 1.

Competitive Framework Key

The Aberdeen Competitive Framework defines enterprises as falling into one of the three following levels of practices and performance:

Best in class (20%) —practices that are the best currently being employed and significantly superior to the industry norm

Industry norm (50%) —practices that represent the average or norm

Laggards (30%) —practices that are significantly behind the average of the industry



Table 1: Companies With Top Performance Earn “Best-in-Class” Status:

Definition of Maturity Class	Mean Class Performance
Best in Class: Top 20% of aggregate performance scorers	<ul style="list-style-type: none"> • 24% projected sourcing cost savings as a percent of total spend • 91% success rate for claims filed • 8.5% audit savings issues identified & secured as credits • 69% reduction in operational costs to manage network expenses • 31% reduction in FTE's to manage network expenses
Industry Average: Middle 50% of aggregate performance scorers	<ul style="list-style-type: none"> • 9% projected sourcing cost savings as a percent of total spend • 63% success rate for claims filed • 1.7% audit savings issues identified & secured as credits • 61% reduction in operational costs to manage network expenses • 21% reduction in FTE's to manage network expenses
Laggard: Bottom 30% of aggregate performance scorers	<ul style="list-style-type: none"> • 0% unsure of sourcing cost savings as a percent of total spend • 10% success rate for claims filed • .2% audit savings issues identified & secured as credits • 55% reduction in operational costs to manage network expenses • 14% reduction in FTE's to manage network expenses

Source: AberdeenGroup, April 2007

Best in Class PACE Model

Best in Class use of Telecom Cost Management programs to manage international expenses contribute to the key performance metrics cited above. Each has a direct impact on getting control of expenses and driving cost savings. Using TTCM to achieve these goals requires a combination of strategic actions, organizational capabilities, and enabling technology summarized as follows:

“The challenge is how to migrate from our legacy network to a new IP based network with more bandwidth while managing our unit cost. We try to segment our telecom service needs and leverage sourcing negotiation with multiple suppliers in each segment.”

- Cam Ng, Director IT
Cathay Pacific Airways

Table 2: Best-in-Class PACE Framework

Pressures	Actions	Capabilities	Enablers
<ul style="list-style-type: none"> • Disruption from new network technologies (unified communications, VoIP etc.) 	<ul style="list-style-type: none"> • Application of corporate business and accounting rules globally • Achieve visibility transparency and control for network hardware and services 	<ul style="list-style-type: none"> • Cost reductions through better sourcing of telecom contracts (carrier rates) • Centralized asset management and inventory tracking for entire global network • Ability to drive cost reduction for operational costs to manage telecom network expense • Establishment of consistent reporting for visibility and control 	<ul style="list-style-type: none"> • Centralized procurement portal to manage service order activity and update inventory • Fixed and percentage based allocation chargeback • Automation of invoice processing and/or business process outsourcing • Automated auditing of bills to contracted rate plans and inventory errors • Web portal for approval of invoices and escalation for bills nearing past due date

Source: AberdeenGroup, April 2007



Aberdeen Insights – Part 1

Telecom costs are difficult to track because they include tangible assets (lines and circuits) with decentralized inventory spread over multiple locations and intangible services. Move Add Change, Disconnect (MACD) service order activity creates a moving target that enterprises must reconcile with their billing. Billing is complex with elements that can be time-sensitive (peak vs. off peak), and volume sensitive. In addition, telecom providers have different billing platforms for their varied offerings. Each platform requires a degree of customization to read and interpret the billing data. Finally, the shift from traditional voice networks to data-centric networks and rapid growth of wireless services requires proactive management to keep inventory and costs under control.

To unlock savings and control spend, enterprises need to think globally. They must establish formal programs to track supplier contracts and billing compliance.

These top performers (Table 1) are focusing on:

- Improving sourcing, invoice processing efficiencies, auditing, reporting efficiency and performance.
- Driving visibility into spending and late payment penalties.
- Improving utilization of telecom assets.

Carrier consolidation presents a new opportunity for enterprises to adopt formal total telecom cost management (TTCM) programs for end-to-end management of sourcing, procurement, invoice reconciliation and payment, asset management, and reporting analysis.

In the next chapter, we will see what the top performers are doing to address the conundrum of international telecom costs.



Chapter Two: Benchmarking Requirements for Success

Fast Facts

- Best in Class organizations are close to **two times more** likely to have service order management provisioning software in place than all the others.
- Best-in Class organizations are **two times more** likely to monitor their realized cost reduction savings on monthly basis.

A clear relationship exists between international telecom cost that are out of control and lack of visibility into telecom inventory. The vast majority of enterprises, 63%, have little to no visibility into their spending. 63% of enterprises seek to address this challenge with technology to centralize asset management.

Case Study: Global Energy Services Firm

A global energy services firm with more than 100,000 employees working in 120 countries around the world including the US, Middle East, Russia, Africa and Europe needed to manage their international telecom expenses. When they won a bid for new projects, they established local offices with phone services through a network integrator that managed their telecom network. The energy services firm paid the charges for their offices based on a cost-plus formula. There were no controls to validate the mark ups on the bills, and they did not have a mechanism to determine if the services and equipment were really purchased for their facilities.

Although most of their contracts allowed for them to pass their costs onto to their clients, the energy services firm had to establish better controls for the program. They evaluated a number of different approaches and determined it was not necessary to establish a local presence at each site to control the billing. Instead, they identified telecom cost management companies that would aggregate all of the billing together. In addition the energy services firm was seeking to put controls in place for service order activity with an online procurement portal that contained a catalog of the approved hardware and local carriers. This would also establish an audit trail for approving new service requests. After evaluating a number of TTCM companies, it was clear that none of the providers had experience in all 120 countries. The Director of Network Services selected a provider that had a track record of deploying new readers for a wide range of international carriers' billing platforms.

“We knew there were risks in working with a provider that did not have billing readers for all of the countries where we were located, but none of the suppliers were in every country. Our approach has proved to be a winning bet. Before this program was established, we had no visibility into the services and equipment for which we were being re-billed. While we in turn were re-billing out clients, it was a bad arrangement with no control and no accountability,” stated the Director of Network Services. He added, “we still have a long way to go, in terms of getting all of our sites in the program, but we went after the countries with the largest expenses and now we have visibility and control for almost 85% of the expenses.”

Competitive Maturity Assessment

Best in Class performers are moving to establish new capabilities to validate that sourcing efforts actually produce the savings that are negotiated. Our review shows how technology enables Best in Class performers to develop controls over procurement procedures to ensure services are ordered from approved suppliers and billing is validated against the contracts. Automated invoice processing helps to avoid late payment penalties, and reporting establishes visibility into the expenses.

Survey respondents fall into one of three categories – Laggard, Industry Average, or Best in Class — based on their characteristics in two key categories: (1) operational cost reduction; (2) overall reported operational cost reductions for telecom expenses with carri-

ers. Table 3 shows how firms exhibiting Best in Class characteristics also enjoy Best in Class performance (Table 3).

Table 3: Competitive Framework

	Laggards	Average	Best in Class
Process	System-driven ability to manage performance accountability through allocation chargeback for telecom expenses		
	25%	42%	44%
Organization	Centralized sourcing of telecom contracts (carrier rates, terms & conditions)		
	55%	68%	75%
Knowledge Management	Centralized system for forecasting and accrual of expenses/credits with consistent application of business and accounting rules globally		
	24%	42%	63%
	Accurate inventory and complete data repository for telecom services		
	19%	35%	38%
Technology Usage	Service order management software to centralize procurement of orders		
	11%	32%	40%
	Automated processing of invoices or outsourcing of this function		
	25%	41%	47%
Performance Measurement	Realized cost reduction savings		
	20% monitor monthly	28% monitor monthly	56% monitor monthly
	Timeliness for invoice payments/late payment penalties		
	41% monitor monthly	51% monitor monthly	67% monitor monthly

Source: AberdeenGroup, April 2007

Organizational Capabilities and Technology Enablers

The essential ingredients of an international TTCM program are technologies that manage the full lifecycle reconciling activity from sourcing, service order management, invoice processing, auditing, usage allocation charge-back, inventory management, optimization, reporting, and bill payment.

- 72% of our respondents indicated that their top business challenge is decentralized procurement of telecom services in different countries. 40% of Best in Class enterprises are meeting this challenge by centralizing procurement of orders with service order management software. Only 25% of the Average and Laggards are using service management software.



- Well-designed programs help to validate and track the savings. Best in Class win 91% of their billing claims compared to Laggards that win 10% of their claims.
- Best in class report that they book 60% of their sourcing gains while Average book 37% of their contracted savings and Laggards book 33% of the savings.
- 71% of the respondents indicated they struggle with inconsistent approaches to managing telecom network expenses. 63% of Best in Class have addressed this problem by establishing a centralized system for forecasting and accrual of their expenses with a program that provides for consistent application of business and accounting rules globally.

"A program that does not manage your international telecom expenses is incomplete. We delayed this aspect of the program for years believing that it couldn't be done cost effectively. Now we see that not doing anything was costing us.

- Controller
Food Retailer

Aberdeen Insights – Part 2

When it comes to managing international telecom costs, language is a barrier that can be overcome with technology. Only 41% of our survey respondents ranked overcoming language as an obstacle to managing telecom costs. Establishing multi-language reporting also ranked last as an action to manage international costs. People can learn new languages, and translation of language is relatively easy compared to reconciling different approaches to reporting expenses. It turns out that getting different regions to use a common financial language is much harder. Understanding how different business units are reporting telecom expenses is harder to overcome. The second most common action to deal with the conundrum of managing telecom costs is the application of corporate business and accounting rules globally.

"We found carriers have completely different definitions for their services. You can't assume that all the telecom cost management suppliers understand international billing. You must find a partner that will interpret the billing so you have one consistent view of your expenses."

- VP Finance
Global Property-Casualty and Life Insurance Company



Chapter Three: Required Actions

Fast Facts

- 56% of Best in Class monitor their cost savings for international spending each month and this focus drives savings to their bottom line with performance accountability.
- 83% of our respondents look to operational savings as the top factor when they are evaluating international telecom cost management initiatives.

Whether a company is trying to move its performance in total telecom cost management from “Laggard” to “Industry Average,” or “Industry Average” to “Best in Class,” the following actions will help spur the necessary performance improvements:

Laggard Steps to Success

1. Put global sourcing of telecom services on hold until you complete steps 2-3 listed below.
2. Make your first priority centralizing invoice management. Look to build your capabilities to reconcile invoices with your contracts. Use the software to continually update your inventory and drive compliance with corporate contracts.
3. Automate your telecom bill processing to reduce operational costs. You may need to use a phased approach establishing priorities starting with the countries with the greatest amount of spending. Automated telecom bill processing will provide an automated mechanism to validate billing, reduce late payment penalties, standardize how expenses are reported, and get a centralized view of telecom expenses.

“We found it is possible to use technology that allows local offices to move from transactional aspects of processing bills and get involved in proactively optimize what they have.”

- IT Manager
Software

Industry Average Steps to Success

1. Industry Average enterprises should use the information on spending from processing invoices to develop a strategy for global sourcing of contracts for telecom services.
 - a. Most sourcing is done locally, but larger carriers are seeking to develop global contracts. The key is to use spend information to determine when a global contract will produce larger savings in terms of rates and operational efficiencies.)
 - b. Leverage your aggregated spending to segment highly competitive services for regions where multiple carriers can readily provide services.



2. Build on the automation of invoice processing to reconcile service order activity with billing and contracts. Invoice-processing software should have special contract pricing entered into the system to provide more detailed line item audits of billing. As moves, adds, changes and disconnect service order requests are placed with carriers, enterprises should look to reconcile this activity with the bills that are being processed.
3. Create transparency for telecom expenses with the application of corporate business and accounting rules globally. Use expense charge backs and web reporting to get visibility into spending with expense allocation charge-back to business units.

"Managing international bills should be treated as a corporate project/initiative, so get the support you need to make it one."

- VP Voice & Data Services
Financial Services Company

Best in Class Next Steps

1. Best in Class enterprises should focus on management and optimization of their network costs. Industry Average should have a baseline of information to determine how much is being spent for specific services. This can be used to reduce the cost base and optimize the services being used.
2. Implement an accrual process. Determine how new service orders, disconnects, and other telecom expenses are being accrued. Many enterprises use inflated estimates because they do not have good visibility into costs. Best in Class performers reduce the drag on finances that comes from poor accrual estimates.
3. Establish benchmarks to determine total cost of service for each region. Some regions may start with have higher rates for telecom services, but it helps to have managers championing cost saving initiatives in regions where costs are high. Use reporting to monitor cost reductions by business unit and region.

Aberdeen Insights – Part 3

This report highlights programs that are in the early phases of managing international telecom expenses. The challenges may appear to cultural or tied to how the local organization manages telecom expenses, but Best in Class performers are using technology to drive standardization in how bills are processed and reported. Technology can address leakage from sourcing initiatives. Monthly reporting can establish accountability for business units and help with creating a more accurate profit and less statement. Best in Class in this report have achieved large returns for their investments by establishing controls and consistency in how they manage their spending. Readers of this report must act today to gain control and capture savings from their telecom costs.

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Appendix A: Research Methodology

Between February and March 2007, Aberdeen Group conducted a survey to contrast the financial perspective of financial managers with IT managers. This report's findings are based on the responses from 135 respondents.

Responding executives completed an online survey that included questions designed to determine the following:

- The structure and effectiveness of existing TTCM implementations
- Current and planned use of TTCM solutions
- The benefits, if any, that have been derived from TTCM initiatives.

Aberdeen supplemented this online survey effort with telephone interviews with select survey respondents, gathering additional information on TTCM strategies, experiences, and results.

The study aimed to identify emerging best practices for enterprises seeking to implement TTCM and provide a framework by which readers could assess their own capabilities.

Responding enterprises included the following:

- **Industry:** The research sample included respondents from 32 different industries. Finance/banking/accounting was one of the largest segments represented in this survey with 13% of our respondents, followed by, health/medical/dental services, and high technology/software.
- **Geography:** The majority of respondents (68%) were from North America. Remaining respondents were from Europe (17%), the Asia-Pacific region (11%), South/Central America and Caribbean (3%) and the Middle East (1%).
- **Company size:** About 48% of respondents were from large enterprises (annual revenues above US\$1 billion); 34% were from midsize enterprises (annual revenues between \$50 million and \$1 billion); and 29% 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 Conundrum of Managing International Telecom Costs Benchmark Report. Their sponsorship has made it possible for Aberdeen Group to make these findings available to readers at no charge.

Table 4: PACE Framework

PACE Key
<p>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:</p> <p><i>Pressures</i> — external forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)</p> <p><i>Actions</i> — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product/service strategy, target markets, financial strategy, go-to-market, and sales strategy)</p> <p><i>Capabilities</i> — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products/services, ecosystem partners, financing)</p> <p><i>Enablers</i> — the key functionality of technology solutions required to support the organization’s enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)</p>

Source: AberdeenGroup, April 2007

Table 5: Competitive Framework

Competitive Framework Key
<p>The Aberdeen Competitive Framework defines enterprises as falling into one of the three following levels of performance:</p> <p><i>Best in class (20%)</i> — TCM programs that are the best currently being employed and significantly superior to the industry norm, and result in the top industry performance.</p> <p><i>Industry norm (50%)</i> — TCM programs that represent the average or norm, and result in average industry performance.</p> <p><i>Laggards (30%)</i> — TCM programs that are significantly behind the average of the industry, and result in below average performance</p>

Source: AberdeenGroup, April 2007

Table 6: Relationship between PACE and Competitive Framework

PACE and Competitive Framework How They Interact
<p>Aberdeen research indicates that companies that identify the pressures with the greatest impact and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute.</p>

Source: AberdeenGroup, April 2007



Appendix B: **Related Aberdeen Research**

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

- [The CFO's View of Telecom Cost Management](#) (March 2007)
- [Look before You VoIP](#) (January 2007)
- [The Wireless Costs and Performance Benchmark Report](#), (January 2007)
- [Wireless Mobility Management, A Buyers Guide](#), (December 2006)
- [Total Telecom Cost Management: The Cost of Not Acting](#), (November 2006)
- [Verizon Business Opens eBonding Portal with Total Telecom Cost Management Suppliers Market Alert](#), (October 2006)
- [The Total Telecom Cost Management Solution Selection Report](#), (September 2006)
- [Total Telecom Cost Management: Savings Are Just Part of the Picture](#) (September 2006)
- [The Challenge in Total Telecom Cost Management](#), (June 2006)
- [The Wireless Costs and Performance Benchmark Report](#) (March 2006)
- [Aberdeen's 2007 Communications Research Agenda](#)

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April 2007*

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