# Continual Improvement Best Practices for TEM

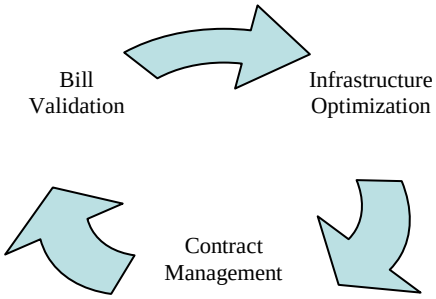
Rockefeller and Standard Oil gave the world inexpensive refined oil by continual improvement – decreasing the cost of even the humble stopper in a barrel of oil while maintaining quality. Japanese called this process Kaizen and using it gave consumers cars renowned for not breaking down.

Many firms see telecom expense management (TEM) as a process of bill processing and auditing, along with periodic contract negotiation. They do not see the opportunity for continuous improvement through lowered costs and better service year after year.

Continual savings do not come from periodic contract negotiations every few years or looking for billing errors that shouldn't be there in the first place. Best practices require looking for continual improvements as prices decline, superior solutions come to market, and business needs diverge from current services. Firms that put in place these best practices realize savings of 20-50% compared with firms that do not implement these best practices.

## Three Approaches

There are three primary ways to cut costs, all of which require a firm understanding of the company's current infrastructure and bill detail. The three approaches are bill validation, infrastructure optimization, and contract management. This means that every single service must be individually scrutinized to ensure that the service is being billed for correctly, the service still serves a business need, and the service is billed for at market rate.

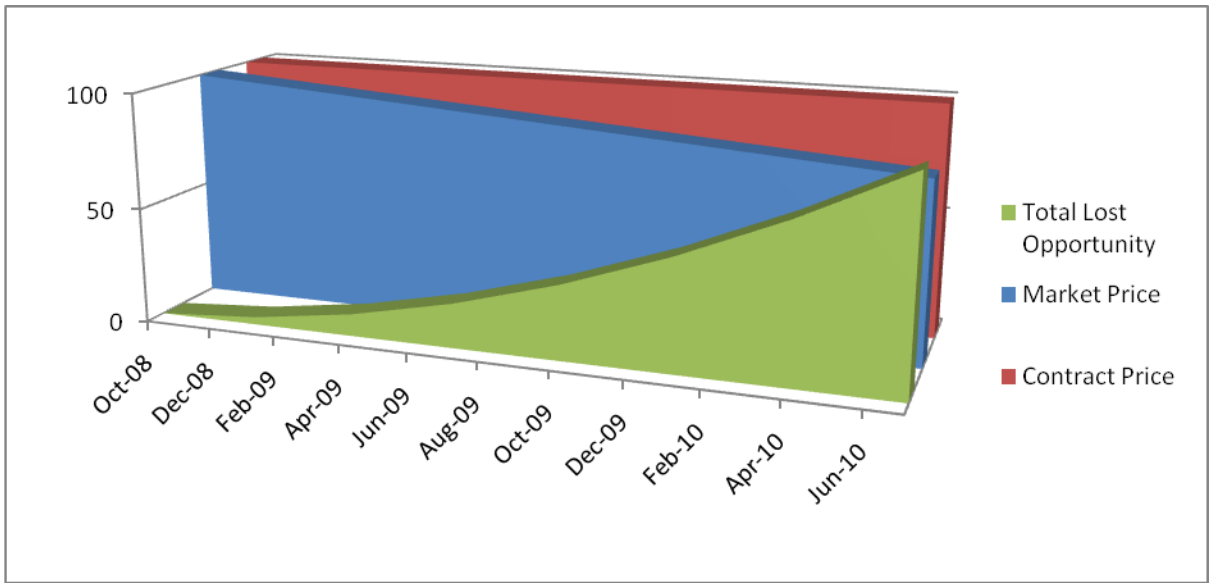



In order for any of this to work, the organization requires granular detailed visibility into their telecom expenses. They must know every single service they're billed for, how much it is being used, what it costs, where it is, etc. Without some sort of database system the organization is flying blind.

## Contract Management

Contract Management is a continual process, not just a one-off revolving around signing a new contract. There are two primary intertwined approaches, exactly meeting commitment levels and data on lowest market rates.

When a firm signs a new contract the price on a contract stays fixed. Over time market prices tend to fall for many services. As the gap continually widens the total lost opportunity over the life of the contracts increases.




Unfortunately market rates aren't published online. In order to understand the best market rates currently available, firms needs access to an objective third party that know what other firms pay and what other vendors are offering.

Many firms sign annual revenue commitments with their vendors. Over time a gap will develop between what the vendor bills the firm and the firm's commitment. If the firm is billed less than the commitment the vendor sends an invoice for the difference. If the firm is billed more, the vendor makes more money than anticipated. It is a win-win for the vendor. Often vendors won't even disclose this gap without prompting from the firm – even though this gap requires continual monitoring.

To optimize the contract, the firm should look for opportunities to close the gap and have its annual billing meet its commitment. If the firm's billing is under the commitment the firm should move services off contract and place them under the vendor's so they count towards commitment. If the firm is paying above its commitment it should demand that the vendor reduce prices on services towards new low market rates. If the vendor fails to cooperate the firm can move services to another vendor offering current market rates.

Similarly, the middle of a contract is also a good time to negotiate. If the contract is going well the vendor would like to maintain its incumbent position. If the vendor has to acknowledge that it's pricing is above current rates, the vendor will be more than likely to addend the contract or sign a new one with favorable terms. All of this requires current market data, which can be hard to obtain without expertise and broad contacts across firms for benchmarking. Vendors do not want current clients leaving for other vendors as soon as the contract is up.

## Bill Validation

The importance of this is fairly well known. Each bill must be checked against the contract and the list of the services the firm has requested. For many firms this is as far as they will go with Telecom Expense Management. Once they've harvested the low hanging fruit they won't dig deeper in to the details of their telecom expenses. Each month they'll simply resolve variances between the current bill and last month's.

This is certainly a key component. About 10-15% of the savings from TEM typically come from billing errors. A faulty bill validation process will also quickly undermine savings from the other two approaches. In order to do this correctly it is important to have a tracking system for each issue until it is resolved. Vendors are notorious for failing to correct billing errors or remove unused services. Without a consistent process these issues routinely fall through the gaps and are discovered years later. Vendors will even proclaim there was never a request in the first place, and refuse to pay for more than a few months of errors. Solid documentation and follow through are critical.

Similarly, firms should be able to predict from their own database system what their bills should look like. Relying on variances between one bill and another assumes that the old bill doesn't have problems or bills for current business needs.

## Infrastructure Alignment

Over time the services a firm is purchasing are no longer aligned with the needs of a business. Every firm has offices that move, close, shrink or expand. Firms that once sent and received plentiful faxes need to remove unused fax lines. New technologies can offer superior service and capacity for the same price as old technologies. Old services must be removed as new are added.

This requires the services purchased to regularly scrutinized, which in turn requires visibility into costs. The firm needs a database of every service, especially voice and data lines. The firm should be able to determine the number of lines at each location and at least roughly the utilization on each line. Often firms will discover lines at old locations, or that are no longer plugged in to anything. Similarly without a good tracking system, vendors will often fail to honor requests to remove unused service.

This is also critical when considering new telecom solutions. Without an understanding of all the current costs, and assurance that the firm is only buying what it needs, there is no baseline for a firm to compare the cost of new telecom solutions against. This calls in to question the accuracy of any potential savings.

## Summary

These three approaches of bill validation, infrastructure optimization, and contract management are the keys to continual improvement in costs. It is not just a one time or triennial event. However, in order to be truly effective they also require visibility into costs, understanding of services and how they fill business needs, and data on current market prices.

Firms that put in to place these best practices can realize savings of 20-50% versus firms without these best practices. Savings as a percentage increase with the size and complexity of each location's infrastructure. For example, a manufacturing firm with few office employees per location may typically see 20-30% savings, while a travel agency with many office employees at each location typically sees 50% savings.

For more information on our approach to telecom savings e-mail us at sales@berlinpacific.com or call us at 212-247-2502