

WHY YOU SHOULD MAKE NETWORK EXPENSE MANAGEMENT A PRIORITY

For CFOs, CIOs, VPs of Finance and IT, and other leadership roles in businesses.

Every business, no matter how well they think they're doing, can still save money on their network services. All the time. Period. The business environment, like any ecology, is one of constant change and growth. As the number of users and locations increase, so does the opportunity for error and waste. Even if headcounts remain steady, employees that leave and are replaced represent activity that costs money.

The shiny new technology you just implemented requires all new services that must be replaced and each are built on different billing platforms with new accounts. These new accounts and services create a new set of variables and user behaviors multiply those variables exponentially. All this occurs while the organization moves forward with too little attention paid to closing out tasks once things begin to work. Here are three reasons to make network expense a priority:

Reason #1 – Continuous Savings

In 2005 we started with a mid-sized healthcare firm. The initial engagement was to develop an inventory of bills. Five years later, we are still delivering savings. This is in addition to the contract negotiations we manage periodically. We keep a log of billing issues for two reasons: 1) To validate client confidence in our processes, and 2) To ensure that credits and refunds are accurate and received.

This is how it played out:

- **Year One** - \$123,000 in reduced/recovered charges.

- **Year Two** - \$2.3M reduction or 42% for a new three-year contract.
- **Year Three** - \$72,000 in recovered/reduced charges.
- **Year Four** - \$1.1 M reduction or 22% for renewed contract and \$92,000 in reduced/recovered charges.
- **Year Five** - \$88,000 in reduced/recovered in addition to validating \$90,591 in contract adjustments.
- Over the five year period about \$21M was at stake with about \$3.8M in reduced/recovered expenses for a net impact of 17.6%.

The average growth rate of telecom expenses is 6%. Starting with an annual budget of \$4.2M, in five years this can easily grow from a total of \$21M to \$23.7M. Greater visibility and strong processes will keep expense growth under control and predictable. The numbers show it is worth the effort.

Reason #2 – Knowledge Obtained and Repurposed

Companies can leverage the knowledge gained from the cost savings process and apply it to other areas of the business. Because savings efforts in themselves are not free, they must be considered part of the sunk cost of network expense. The knowledge obtained can applied to impacting costs that have not yet occurred, commonly referred to as opportunity costs.

Enhancing operations and supporting evidence-based decision-making are the two key factors that differentiate simple expense management from lifecycle management. This is also where things can get interesting and additional value is created.

In evidence-based decision-making, a robust knowledge base is a strategic tool that can be used in negotiating vendor contracts. Knowing the patterns, trends, and behaviors of your users provides context for all other discussions. A knowledge base is essential for two reasons: 1) It shows how your organization consumes technology, and 2) Allows you to isolate those cost element(s) that represent the greatest expense and concentrate efforts to have a material impact overall.

These are the needle movers:



- **Validating vendor claims** – Using the same client mentioned previously, the incumbent network provider offered a proposal claiming a savings of 40%. Using the knowledge base, an analysis showed it to be actually a 14% savings. The client opted to go to bid.
- **Contract negotiations** – Wishing to avoid the cost of conversion, the client was predisposed to stay with the incumbent and their hope was to achieve a 25% savings. Using the knowledge base to compare best price performance of the needle movers, the outcome exceeded their expectations by 168% or a total savings of 42%. A new vendor was selected.
- **Faster Service Response Times** – During the conversion, the knowledge base was expanded to include trouble reporting information to shorten response times and was eventually incorporated into the service desk that was built 2 years later. Response and resolution of Trouble Tickets was shortened through better business intelligence.

Reason #3 – Building a Bridge Between Finance and IT

In many companies these two departments openly distrust each other. Finance has little interest in technology and doesn't think IT does enough to manage their costs. IT sees finance as 'bean counters' who have no understanding of how important technology is. The cost to this can be easily found in billing errors, delays in approval for important projects, and service interruptions.

We find that organizing information around each department's needs is very productive and encourages greater appreciation for their counterparts' jobs. Developing a common terminology, defining roles, and creating well-reasoned policies bring the two sides closer to cooperation.

These are some of the positive outcomes:

- **More accurate forecasting** – Adding costs to the knowledge base is important in forecasting IT budgets with greater accuracy and data can take on more granularity as needed. Projects such as office changes can be assigned real costs to projects.



- **Greater budget visibility** – Managers who curb the distribution of technology are risking lower productivity, but providing them hard numbers helps them responsibly manage their budgets.
- **Smoother implementations** – This process should have stakeholders in IT, finance, and the business units themselves. Sharing information is key to creating a credible process to bring up new offices and services, as well as taking them down. By coordinating these groups, we were able to cut 12% from the timeframes and now deliver services ahead of schedule and on budget.

Conclusion

As a business leader, managing network expense is worth your attention and you should be a stakeholder in that process. Just like marketing plans, sales plans, security plans, or project plans, you should have an expense management plan. In this economic climate, companies can no longer overlook the value that sustainable savings can offer your business.

A&I is a specialty consulting firm that focuses on network services and helps companies save money, get projects quicker, and provides greater visibility into business processes. Please call us at **412 221-4228** or email us at info@auditsandinvestigations.com for help with developing your company's expense management plan.

