

Financial Justifications and Return on Investment

By Tony Bodetti

With the latest downturn organizations must cut spending. Telecommunications is a top line item expense for most organizations. On average, communications accounts for 3% to 4% of an enterprises' annual expenditure. These expenses have a real impact on earnings and profitability. Organizations spend between 2% to 5% of their telecom budget attempting to manage these expenses with a patchwork of manual processes that often fail to deliver the desired savings. Many enterprises are now turning to sophisticated programs for telecom expense management (TEM) that produce dramatic savings.

Refunds and savings from telecom expense management (TEM) programs can be used to create a return on investment (ROI) business case to cost justify the expenses for a TEM program. Most organizations have a formal process that must be followed to evaluate and approve the business case for significant financial expenditures.

The functional groups that get involved in developing a business case for TEM often include: IT, Sourcing, Finance, Global Technology Infrastructure Management, and line of business managers. The business case typically includes a detailed review of technology, projected productivity gains, and savings for each project.

Some of the top criteria used in evaluating telecom cost management initiatives include:

- Percentage of return on investment
- Absolute return on the program
- Likelihood of achieving financial goals for project
- Time to reach break-even on investment.

A return on investment is computed from the following calculation.

$$\text{ROI} = \frac{(\text{Gain from Investment} - \text{Cost of Investment})}{\text{Cost of Investment}}$$

Savings categories include:

- Refunds for back credits, billing errors
- Inventory reconciliation and cleanup
- Client identified reductions through inventory reports
- Optimization recommendations
- Sourcing savings for new contracts at lower rates
- Improved transparency and visibility of expenses

TEM savings opportunities are likely to always be present because telecom is the most complex of all bills that an enterprise will receive. Billing includes time-sensitive (peak/off-peak) elements, volume-sensitive discounts, metered and fixed charges. Telecom carriers

have highly complex applications that are used to manage billing, and most carriers use different systems for processing service orders, provisioning, and billing. These systems must continually be reconciled and updated. Finally, new technology means that communications services and billing are always changing. In turn, there are new contracts and addendums that need to be updated to ensure

that billing reviews are accurate. This means that it is impossible to capture all of the refunds and savings and ensure that billing will be accurate in the future without an ongoing dedicated TEM program.

In closing, organizations should consider the cost of "no action" or delayed action. Each month, enterprises may be forfeiting opportunities to optimize its telecom expenses and save money. Refunds for billing issues are subject to the statute of limitations. It can be difficult to provide documentation needed to secure claims so enterprises should recognize that there are real costs if they fail to act.

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Expense Management Return on Investment Model

	Unit Cost	Percent Savings ^a	Term	Year 1
Annual Spend				
Loaded staff Cost (X FTEs @ \$XXX each)				
Back Credits				
Billing Errors				
Inventory Clean-up				
Optimization Recommendations				
Client Identified Reductions Through Inventory Reports				
Implementation Fee			One-Time	
TEM Processing Fee			Ongoing/Monthly	
Wireless Management (per device/month X # of devices)			Ongoing/Monthly	
Fixed Wireline Provisioning Fee			Ongoing/Monthly	
Savings & Credit Commissions			12 months	
Total Client Savings				
Total Client Savings including FTE Savings				
TEM Fees				
Savings & Credit Commissions				
Total ROI				
Total ROI including FTE Savings				
% Gain Based on Investment				
% Gain Based on Investment including FTE				
% Savings Based on Spend				
% Savings Based on Spend including FTE				