

Staying Ahead of the Demand for Network Cost Savings

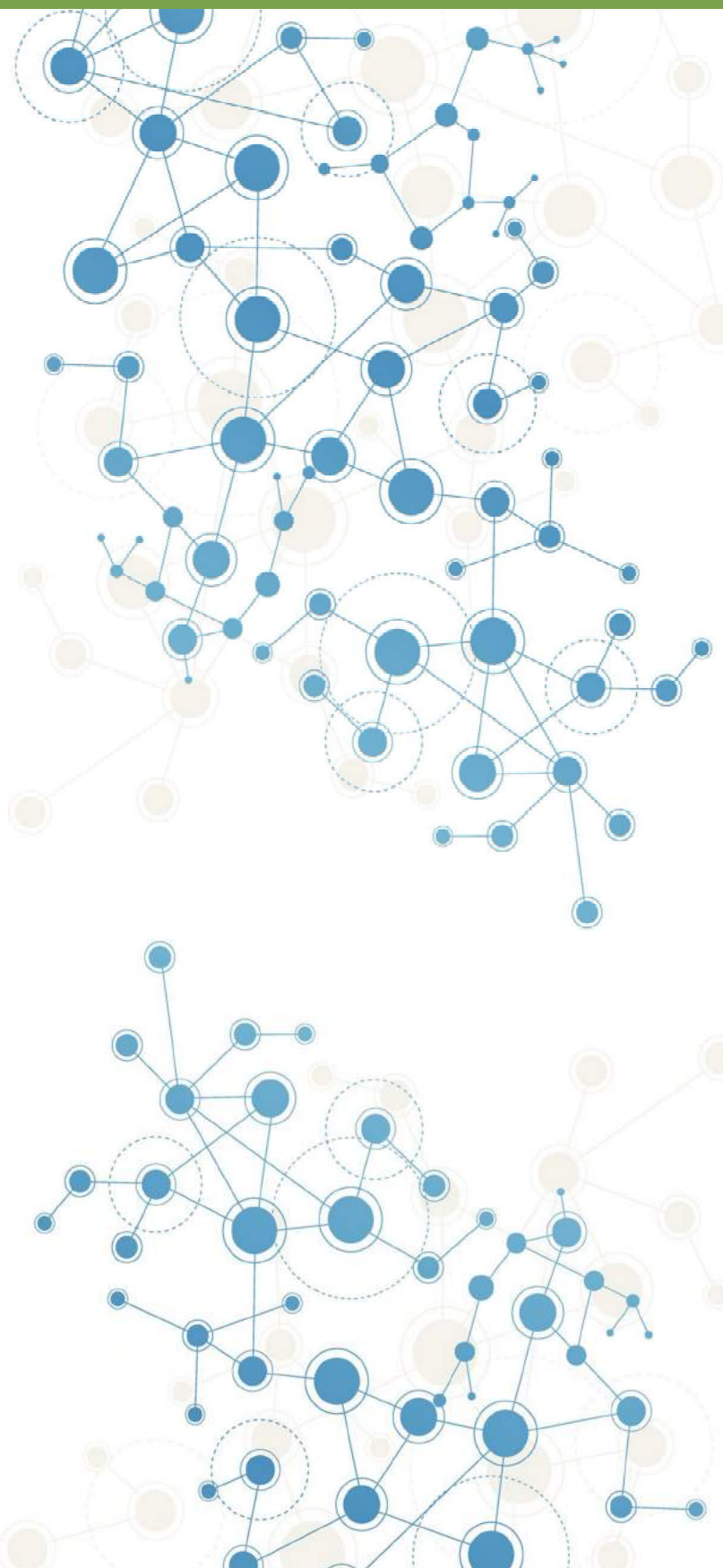
Ben Fox | July 24, 2018



Wide-reaching cost cutting initiatives have become increasingly common at large companies over the last decade. Whether motivated by a business downturn, a bad quarter, or a market change, such cost cutting initiatives apply huge pressure for short term cost savings, often at the expense of longer term strategic projects and investments. Network infrastructure expenses – e.g. circuits; usage; mobile; managed network services; hardware/software maintenance, licenses and purchases – are often perceived as rich pickings for savings and are thus one of the first areas to be targeted. A key factor is a general awareness that unit pricing for commodity network services trends down over time.

Despite this perception, suddenly extracting substantial cost reductions from the network infrastructure budget is no easy task. To drive truly significant reductions requires competitive pressure (e.g. [via a competitive request for proposal \(RFP\) process](#)) or implementing new, more cost-effective technologies. But both those options take time – time that it is rarely afforded under cost cutting initiatives that almost always target in-year savings. And to deliver in-year savings, such initiatives would have needed to start months before the cost cutting initiative was announced...

But in fact, waiting for the arrival of the demand for cost savings before starting to think about specific network cost reduction initiatives is a mistake. Astute network departments have a constant focus on driving continuous cost improvements. When the cost cutting initiative almost inevitably arrives, they can respond with multiple initiatives already in-flight and already on track to deliver in-year savings. The harder question then becomes how the realized savings will be distributed between meeting the in-year savings requirement versus reinvestment in the network infrastructure.



Delivering such continuous network infrastructure cost improvement involves multiple complementary activities:

- *Staying ahead of the pricing curve*
Pricing for network infrastructure services and products is constantly changing, so keeping your pricing and contracts in line with the market requires a continuous cycle of sourcing activities and negotiations.
- *Technology transformation*
To drive cost savings substantially beyond what is possible from negotiating best in class market pricing requires embracing new technologies that are more cost effective. But it takes considerable time to identify, evaluate, develop a business case, source, contract and implement new services and technologies, which is why technology transformation should be just one element of your continuous cost improvement strategy.
- *Infrastructure optimization*
Keeping network infrastructure and services optimized is unglamorous and often mundane work. But it is highly lucrative and thus crucial for seeing continuous cost improvement. For example, terminating unused services; cleaning up legacy services lingering in your network from the last technology change; making sure services have been purchased under the correct contract, from the right vendor, using the optimal pricing option. Network infrastructure undergoes almost constant change, meaning that optimization is a never-ending cycle.
- *Assuring vendors' delivery of negotiated contract benefits*
It's an unfortunate fact of life in the world of network services that vendors routinely fail to deliver the benefits agreed upon in your contract. For instance, vendors regularly charge higher prices than are negotiated in your contract, charge extra for services that are supposed to be provided at no charge by your agreement terms, or fail to apply credits that are due unless you catch the missing amounts and demand their application. Only by robustly managing suppliers, contracts and billings will you fully secure the benefits you've negotiated.

Developing an approach to continuous cost improvement that includes and integrates all the activities described above provides an aggregate benefit that is greater than the sum of the individual parts. The data gleaned from checking invoices feeds the optimization analysis and provides the data necessary to competitively source and effectively negotiate vendor contracts, which keeps your pricing best in class, and all of which provides cost savings that can (in whole or part) be reinvested in technology transformation to deliver even deeper cost reductions.

Staying Ahead of the Pricing Curve

Measured over long periods it is easy to demonstrate that pricing for many network services and products falls over time, but in the short to medium term the rate of change in market pricing for different services and products varies more, whereby pricing for certain services stagnates for a time, while pricing in other areas drops very quickly. Having [up-to-date information](#) on these trends is critical for knowing where to focus your sourcing and negotiation efforts. For example, in 2018:

- MPLS network services continue to undergo significant price erosion.
 - "Internet first" strategies enabled by SD-WAN technologies are applying huge pricing pressure on MPLS circuit pricing.
 - Access circuit pricing reductions are generally limited to Ethernet access technologies (leading edge pricing for legacy TDM access is close to flat).
 - Whether price erosion is more pronounced in the local access charges, rather than the MPLS port and class of service charges, varies considerably between different carriers.
 - Suppliers are meeting the ever-increasing bandwidth demand of the large enterprise by more aggressively discounting the larger capacity port and class of service elements.
- US enterprise [wireless](#) deals:
 - For smartphone users, plans with pooled data and unlimited voice and messaging are rapidly becoming the norm (mirroring the consumer market).

- Roaming voice/data/messaging charges (that is, the rates for using your mobile device whilst travelling overseas) continue to drop at a greater rate than other areas of wireless pricing.
- Net Equipment pricing (the cost of purchasing equipment once you've accounted for the credits/subsidies that carriers typically provide) is flat, at best.
- Cisco has increased its list pricing for various enterprise products, but discounts are deepening, particularly for customers that tackle Cisco strategically, and leverage the technologies where Cisco is under the greatest competitive pressure. Cisco's strategy to separate pricing and support for hardware and software products (such as with the Cisco One portfolio), plus the trend towards [enterprise agreements](#), is also resulting in Cisco negotiations becoming considerably more involved and complex.
- Pricing for managed network services remains highly competitive as specialist providers increasingly compete with, and win market share from, the carriers and large systems integrators.
- SIP Trunking in the US and Europe is now mainstream and thus far more competitive.
 - Recent price erosion has been driven by lower usage rates, rather than lower recurring charges for the SIP Trunks.
 - Additionally, the process and plan to convert from legacy voice technologies to SIP Trunking lends themselves to competitive procurement, which has helped to drive down pricing.

Following the end of a lengthy contract renegotiation or competitive RFP process, it can be tempting to let out a long breath, file the contract away and not think about it for a while. But before you do so, consider that it is the best time to document and plan for the calendar of sourcing and contract events and milestones across the term of your new/extended contract, and which need to be followed to keep the contract and pricing at the leading edge of the market. For instance:

- *Benchmarking / Rate Review processes*

Often apply annually or mid-way through the contract term. It's important to plan for (i) when the process needs to be initiated with the vendor, and (ii) how far in advance of that your work must begin to review the contract and pricing and determine what market adjustments the benchmarking/rate review process should deliver.

- *Contract expiry and time to begin the next RFP or contract extension negotiation*

Whether the plan is to conduct an RFP, or [negotiate a contract extension without a competitive process](#), the time to start those activities is the same – perhaps counterintuitively, your negotiation leverage to negotiate a contract extension reduces as you get closer to the end of the contract, because the vendor knows that you have run out of time to complete an RFP, such that you have no choice but to extend the contract. Your negotiation leverage is at a maximum when you still have the time necessary to complete an RFP process, such that you could move the services to an alternative vendor if the contract extension negotiation does not meet your expectations. That timeline varies depending on the services, but is typically 9-15 months before the contract expires.

- *Major credit milestones*

Large IT contracts routinely include significant credits that apply on particular dates or when certain thresholds are met by the customer. Vendors rarely, if ever, pro-actively manage such credits during the contract lifecycle so it's important to internally document the key dates/milestones for such credits to make sure they are paid on a timely basis, and that the full value of the credits is received.



Technology Transformation

Technologies evolve so fast in IT and networking that there are endless opportunities to investigate and deploy new technologies and services that promise to help digitize your business, increase productivity and drive new levels of cost efficiency.

[SD-WAN and “Internet first” strategies](#) are the transformation poster child in networking right now, presenting solutions for customers to make better use of lower cost bandwidth options. But like all transformations, it's not as straightforward as simply switching out a legacy technology for a new one, it's a complete change of approach that affects how the services are sourced, contracted, deployed and managed.

Unified communications remains a key transformation focus for many enterprises, whether it's finally replacing ancient legacy PBXs, examining cloud contact center services, supporting employees' communications anywhere with any device, deploying the latest “Teams” cloud tools from Cisco and Microsoft, replacing desk phones with soft phones, or other collaboration technologies.

Looking ahead, the introduction of 5G wireless services in late 2018 (fixed services) and throughout 2019 (mobility services) is expected to amplify transformative impacts in areas such as the Internet of Things (IoT), logistics, media, autonomous systems operations/control and remote site connectivity, just to name a few.

In order to move more quickly, enterprises also look to deliver transformation through outsourcing and managed network services, leveraging an evolving marketplace where a range of smaller and nimbler service providers that specialize in individual technologies and services are winning growing market share from the carriers and large system integrators that still feature strongly in this space.

This just scratches the surface – we haven't even mentioned the never-ending need for more (or optimized) bandwidth, wireless LAN capacity,

improved network resilience and the new security products and services necessary to protect from external threats. As enterprises become increasingly digitized and hence ever more reliant on high performing, reliable network infrastructure, simply throwing money at the existing technologies doesn't make the grade. Delivering technology transformation across all parts of your network infrastructure has become table stakes for successful companies.

Over and above delivering cost savings from technology change, transformation initiatives also deliver best in class pricing because they drive intense competition.

Transformation projects level the playing field by significantly reducing the inherent advantage that the incumbent supplier normally has in a like-for-like procurement where there is no cost, risk or work to stay with the incumbent. In transformational procurements the customer is already prepared for the cost and effort of the transformational change, whether that is with the incumbent supplier or a new supplier.

Customers that are pro-actively embracing transformation are seen by suppliers as far more likely to change from one supplier to another. This encourages non-incumbent suppliers to deploy their best bid teams and provide their most competitive proposals. And equally, it minimizes any complacency from the incumbent supplier.

Transformational procurements put far greater emphasis on the suppliers' capabilities and solutions, compared to procurements for commodity network and IT services which tend to become mostly about price. Suppliers resist simply competing on price for largely similar services, but they are far more attracted to competitive opportunities that encourage innovative solutions and allow them to present the competitive differentiators of their transformational solutions.

The best and only way to take advantage of this competition that transformation initiatives provide is to use a competitive RFP process to assess competing suppliers, technologies and solutions and to drive the best possible deal, with terms and commercial flexibility that will allow you to drive continual cost reduction from the transformed services over the life of the contract and technology.



Contract Compliance and Optimization

Contract compliance (assuring vendors' delivery of negotiated contract benefits – such as checking that the bills are correct) and continual optimization of the services you purchase, are [critical processes](#) for keeping your network costs as low as they can be.

Many large companies' strategies for these functions include the use of telecom expense management (TEM) services and tools to process invoices, perform basic billing error checks and sometimes provide certain inventory functions. When deployed effectively, such TEM services can be key contract compliance and optimization tools, but they should be only part of your toolkit, and need to be combined with a range of activities and processes:

- *Process integration*

To extract the most value from TEM services they need to be integrated with other processes. Such as feeding all service adds, disconnections and changes to the TEM, so that the TEM can confirm that the changes are correctly reflected in supplier billings; making sure that contract pricing amendments and other pricing changes are pro-actively provided to the TEM for associated invoice validation. Seems obvious, but so-often these basic steps are missing.

- *Vendor management*

Defining custom reporting and specific, regular meetings to use to administer the commercial aspects of large vendor contracts is far more effective than ad hoc activities when issues are discovered. Such reporting and meetings are used to pro-actively monitor the key financial benefits under the contract, as well as progress on resolving billing issues that have been raised.

- *Periodic deep dive billing reviews and audits*

TEM billing checks are quite simple, and largely focus on basic billing errors. But large enterprise contracts typically include a range of complex pricing structures that automated TEM tools won't be able to ratify – such as discount tiers, waivers, irregular credits and revenue incentive benefits, all of which we routinely see being missed or underpaid. Accordingly, it is very important to conduct periodic (e.g. annual) deep dive billing reviews to assure that all such contract benefits are received.

- *Pro-active optimization reviews*

Just as important as confirming that the bills are correct, is confirming that you are purchasing only what you need. Large enterprises with multiple disparate business units and sites routinely discover that they are paying for services at sites that have been closed or divested, or purchasing services and capacity that are not required. Combining your invoice validation processes (in particular deep dive billing reviews) with detailed optimization reviews will maximize the results.

The data and information that these activities and processes provide is also a hugely valuable input for more strategic activities, whether more complicated optimization activities (e.g. using the data to assess bring your own mobile device possibilities; detailed circuit capacity reviews) or as input to technology transformation initiatives or pricing negotiations.

Contract compliance and optimization activities are largely about keeping your house in order, and it can be easy to neglect these activities in place of focusing on more interesting and high-profile transformations, RFPs and deal negotiations. Yet companies that don't put sufficient focus and effort into these areas end up leaving a huge amount of money on the table. Additionally, in our experience, companies that do an effective job of contract compliance and ongoing optimization, end up with a far better understanding of the network infrastructure and services that they consume and have in place, and thus are considerably more effective and successful in conducting RFPs, negotiating best in class deals, and delivering cost savings through transformation.

Summary

Successful execution of continual cost reduction initiatives is the only way to stay ahead of the demand for network cost savings. It is crucial to be ahead of all the activities on the perpetual cost reduction cycle - identifying new technology opportunities, running the competitive procurement, supplier selection, contract negotiation, implementation, contract compliance and optimization, rate reviews and benchmarking, contract extensions, and then back to identifying the next technology opportunity... The job is never done.

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LB3 and TC2 assist enterprise customers with network service and IT procurements, benchmarking, compliance management, regulatory issues and disputes.



Levine, Blaszak, Block & Boothby, LLP (“LB3”) specializes in telecommunications and technology law, with particular emphasis on the representation of large users, including almost one-half of the Fortune 100. LB3 has extensive experience in negotiating custom network service agreements, network outsourcings, and related transactions on behalf of enterprise customers. Together, LB3’s attorneys have assisted large users in connection with thousands of network services agreements and related transactions and collectively have more than 225 years of experience in the field. Beyond transactions, LB3 is the leading representative of large end users and IT companies before the FCC and other regulators, and is the first choice of large end users whose relationships with their communications providers have broken down. LB3 also advises clients in connection with software licenses and telecom-related acquisitions.



TechCaliber Consulting, LLC (“TC2”) is a leading consultancy dedicated to assisting its clients to maximize their investment in communications services, networking technologies, managed services and outsourcing, plus a range of related IT infrastructure and services. TC2 works primarily for large multi-national companies, supporting over 100 deals each year that range in value from a few million dollars to hundreds of millions. Our services include developing technology and sourcing strategies, performing market benchmarks of clients’ contracts and vendor proposals, competitive procurements of IT services, vendor negotiations, vendor billing reviews/contract compliance and service optimization reviews.

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