

# Managing Telecom Carrier Expenses

## Introduction

In the 1960s, when the phone company was the phone company, telecommunications analysis consisted in great part of simply determining the appropriate quantity of phones and lines your business needed and whether or not a “WATS” package made sense. (WATS, or Wide Area Telephone Service, provided a certain number of hours of LD calling per month for a fixed fee; this was the service that many employees thought was free: “I’ll call you, we have a WATS line so it won’t cost anything.”) Then, as now, there was always the possibility that a business was paying for services it didn’t need or even have, so the practice of telecom auditing was born, started mostly by ex-Bell employees who knew the ins and outs of service provisioning and billing.

With the explosion of competition, choices and custom contracts over the last several years, the errors in carrier bills and the accumulation of unneeded services have mushroomed. Lest anyone therefore still think of the state of affairs pre-divestiture as the good old days, the average rate for DDD calls in early 1984 averaged \$.45 a minute, which is \$.85 in 2005 dollars, as compared to today’s typical rate of about \$.04 to \$.05 -- a 95% decrease.

We estimate that the majority of mid-size to large corporations are spending from 10% to 35% more than they need to on recurring telecom carrier expenses. How can you tell if this is true of your company? Here are some key questions. If you answer “No” to one or more of these, you would benefit from taking some action.

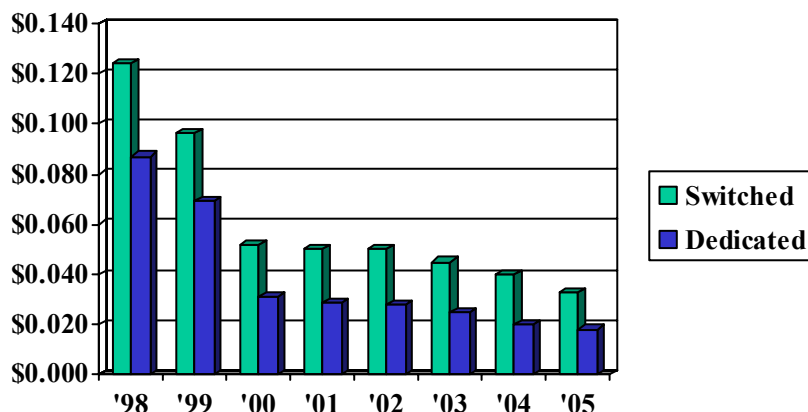
- Have you recently (within the last 12 months) negotiated a new contract with your primary interexchange carrier (“IXC”)
- Do you have contracts with the RBOCs for your local services?
- Is your carrier services ordering process centralized?
- Do you have an up-to-date database of all your lines and services?
- Let’s examine each one of these points and see why they are so important:

## LD Rates and Contracts

Over the last 12 months, and particularly in the last six months, IXC rates for both Voice and WAN services have declined significantly. In the case of Voice, per-minute rates of \$.018 to \$.02 per minute for calls originating or terminating via dedicated access are available from the Big Three IXCs and the RBOCs. Second-tier IXCs, such as Global Crossing, will go down to \$.015 per minute. Switched access rates of \$.03 to \$.035 are available from the Big Three, the RBOCs and second-tier carriers.

These rates are as much as 40% lower than what was generally available just 18 months ago. If your contract is 18 months old or older, you are probably paying \$.03 or more per minute for dedicated service and \$.05 or more for switched service.

Here is a snapshot of Voice rate changes over the last several years:



This precipitous decline is due to three primary factors: 1) The final stages of local access reform, which shifted the costs IXC's pay to LECs for access and termination from a metered per-minute model to a flat fee per-line model; 2) The competitive pressures from the RBOCs' entry into the market; and 3) The race for market share in preparation for the industry consolidation that has already begun.

Given that all three of these factors are temporary, we should not expect significant further decreases on Voice rates until the widespread adoption of Voice over IP ("VoIP"), and we may even see slight increases as the RBOC acquisitions of IXCs are completed in the next 18 months.

On the WAN side of things, we have seen a similar drop in rates. Eighteen months ago, for a 256k frame relay port with a 128k PVC, you could have expected a monthly cost of around \$360 to \$400, not including the local loop; and, a 1536k port with a 768k PVC was at about \$1,175 to \$1,250 a month.

Today, the rates for comparable Multi-Label Protocol Switching-enabled ("MPLS") service, for which the carriers used to charge a premium, are \$210 to \$250 for the 256k/128k circuit and \$700 to \$800 for the 1536k/768k circuit. These figures represent rate decreases in the range of 30% to 47%.

The same market pressures affecting Voice rates have affected WAN rates, with two additional factors: 1) The carriers (with the current exception of AT&T) are pricing MPLS at a discount to traditional frame relay because migrating their customers to MPLS enables them to manage their networks more efficiently; and 2) As Enterprise customers have become more comfortable with VPN's improved security levels, more of them are utilizing that much less-expensive solution.

Rates for frame, MPLS and ATM services are likely to continue to decline for the next few years. The growing adoption of the public Internet and VPN technologies for corporate WANs will continue to put pricing pressure on the carriers. However, as more and more Enterprise customers add VoIP to their networks, their need for faster WAN connections with superior performance will drive the need for faster MPLS circuits. As a result, most companies will see decreased rates but increased consumption of MPLS services over the next few years.

## **RBOC Contracts**

Most Enterprises have done contracts with the RBOC serving their largest locations, but often branch offices have been left out. In the past this was generally due to the complexity of doing

several contracts (in some cases, a different one for each state) without enough volume of services in any one area to drive significant discounts.

Over the last couple of years the RBOCs have been offering region-wide contracts with a single revenue commitment. And, they are offering more aggressive pricing to fend off the IXCs' incursions into the local service market. If you don't already have RBOC contracts in place, now is the time to act, before the RBOCs absorb their competitors via acquisition.

Another viable option is to talk to your IXC to find out how your sites match up with their local services footprint. For sites that your IXC directly serves with a local Class 5 switch, installing a local + LD services PRI can lower both your local and LD service costs and, in some cases, reduce your overall trunking requirements. At a minimum, the IXC could create competition in your bid process with the RBOCs.

Even if your IXC is going to be acquired by an RBOC, those deals won't close until mid-2006. In the meantime, the IXCs and RBOCs will continue to compete for your business, and you can benefit directly from that competition.

### **Centralized Order Processing**

Without a centralized service ordering process it is very difficult to control expenses and avoid waste. In a de-centralized environment, there usually is a lack of documentation and uniformity, and often the quantity of services is not adjusted as needs change (through downsizing, etc.) Centralizing the process can prevent the ordering of redundant or unnecessary services, ensure that all services and accounts are put under the appropriate corporate contracts, and create a mechanism for canceling services when appropriate.

### **Services Database**

Hand in glove with a centralized ordering process is an accurate, comprehensive database containing an inventory of all services and charges. Many corporations address this need through multiple sets of spreadsheets, but this simply won't give you the look-up, version control, and reporting functions required to manage the telephony environment.

The ideal time to populate a database is during the course of an audit. There are a few options to obtain the needed application:

- You can purchase a specialized application.
- You can develop one internally if you have the appropriate resources.
- You can engage an auditing firm that provides one as part of their service package.

Whichever direction you go, building and maintaining a database is essential for controlling costs.

### **Conclusions**

From the relatively simplistic choices of the 60s to today's increasing complex telephony environment, a few things remain constant: It takes a well-defined and -managed set of processes and tools, and ongoing vigilance, to keep telecom costs under control. But, a few things are very different: Up-to-date market knowledge, well-negotiated contracts, and the choice of the right services are also essential. Whether you dedicate internal staff or engage outside resources for these vital functions, your investment will be returned many times over.