



Questions Every CFO Should Ask About Paying Un-Audited Telecom Billing And The Telecom Procurement Process.

By

David Roberts
President & CEO
Teligistics, Inc.

Making cents of your telecom
DOLLARS
dollars®

Table of Contents

<u>Chapter</u>	<u>Page</u>
I. Why Is Telecom Billing So Complicated?	3
II. Why Aren't Your Telecom Bills Audited?	4
III. What Resources Are Available to Ensure Correct Billing? ..	5
IV. Why is Your RFP/RFQ For Telecom Doomed to Fail?	7
V. Why is Bundled Billing & Bundled Solutions a Myth?	8
VI. What Terms Should Be Avoided In Carrier Contracts?	9

Making cents of your telecom
DOLLARS

I. Why is Telecom Billing So Complicated ?

"The FCC has processed on average more than 300 complaints each month from consumers claiming to have been crammed (unauthorized charges on billing), ranking it with slamming (unauthorized changing of carrier) as one of the single largest sources of consumer complaints received by the Commission. In addition to the guidelines, the FCC has also undertaken initiatives to educate consumers about the importance of closely reviewing their telephone bills and to help them actually understand these bills,"¹

Nationwide long distance carriers are required to track & file over 55,000 tax returns. There are 37 different kinds of telecom taxes.

Despite these fairly weak initiatives, the fact remains that the average residential and business consumers cannot accurately read or understand their monthly billing from either their local or long distance carriers, much less audit them in any reasonably accepted manner for accuracy.

The de-regulation of telecommunications in the 80's and the more recent Telecommunications Act of 1996 have created a chaotic affect on telecom billing. Since many carriers now have been built by acquisition, there exists completely different switch and billing platforms within the same entities that do not integrate effectively.

"It wasn't very many years ago that a billing system was just that--a billing system. Telco billing systems were among the most complex in the world. In the Regional Bell Operating Company (RBOC) domain, they were inherited from AT&T, which had poured enormous resources into their development and maintenance. They were a patchwork of software written in COBOL, updated and modified over many years, and linked to other Operations Support Systems (OSSs) only in the most basic sense. Those of the other LECs (Local Exchange Carriers, as well as those of the IXC's (InterExchange Carriers) were little different." ²

Additionally, many carriers have outsourced their billing process to third party vendors. This has added another level of complexity to an already complex problem.

"Where billing relies on call data provided by other parties, differences in data processing cycles may cause an uncomfortable lack of synchronization"³.

In the real world this results in billing mistakes and overcharges to the business customer who has limited or non-existent auditing resources or tools to identify these costly errors.

The average business customer still receives their monthly statements on paper. Those who receive their billing electronically have found these applications written in archaic computer code or in formats not readily downloaded into standard formats. These electronic versions generally produce very limited management reports. Those who are billed electronically or through cd-rom type media billing find little usefulness in this format because of the proprietary nature of each carrier or provider's software.

The fact is that the telecom provider does not have any incentive to make their billing easy to read. If you could accurately read and completely comprehend the billing, their profit margins would decrease because identification of the hidden fees, rates, taxes and charges would be easier.

¹ Federal Communications Commission

² © Copyright 1998 by Datapro Information Services, a subsidiary of Gartner Group, Inc. All rights reserved.

³ © Copyright 1998 by Datapro Information Services, a subsidiary of Gartner Group, Inc. All rights reserved.

Because of competitive pressures, rates have gone down considerably over the last three years. If the billing were simpler to audit, you would be able to find obvious areas where these margins are made up.

Take USF (Universal Service Fund) fees as an example. Although the carriers and providers will tell you this is a mandated fee by the Federal government, what they won't tell you is that each one applies the fee differently (some to gross charges - some to net after discount) and charge a different percentage! The Federal government has mandated this charge at 7.52% (rate the government charges the carriers) however, note the difference in the actual fees charged below. **The Federal government never intended this to become a profit center... or did they?**

USF Fee Example

AT&T	10.60%
Sprint	8.30%
Worldcom	10.10%
SBC	7.89%
Qwest	8.00%

If your organization is billing several hundred thousand or several million dollars per month and you are not aware of these fees and how they are assessed, how would that affect your purchasing decisions regarding the carrier? This is a typical "bait & switch" area of telecom where you may be offered an outstanding long distance rate, but never question where that margin is made up...

II. Why Aren't Your Telecom Bills Audited?

Unless an organization can dedicate the necessary staff and resources to audit and process this billing on a monthly basis, it generally is **paid every month *un-audited***. Organizations are reluctant to dedicate resources to this end because of a lack of tools and knowledgeable staff to conduct this process. Also, it is unclear to most Chief Financial Officers what guarantees exist for any return of investment spent to tackle this issue. This cold reality translates into being forced to *trust* that the carrier is accurate in their billing.

This has proven to be a costly mistake.

Many organizations spend hundreds of thousands of dollars or more in telecommunications expenses annually making this expenditure a significant piece of their overall operating budgets, but one with possibly the *least* amount of financial controls. Organizations with dedicated staff assigned to this end are usually very surprised to find out that the resources now currently being spent on this billing every month is *only* applied to properly allocate various expenses to different cost structures and profit centers. The billing may get a cursory look and/or a spot check, but they are generally not audited by any acceptable accounting standards.

"81% of commercial bills contain some level of incorrect charges. 87% of these errors are in the carriers favor and had been occurring for a period of one to ten years."

**-Brosnan, Messina & Block
1999**

Overall, we have found that when an organization reaches approximately \$50,000 per month in telecom expenses, (*or when a very a complex telecom/data integration infra-structure exists*) dedicated telecom staff of some sort begins to be assembled to handle telecom. This responsibility typically falls under the direction of the Information Technology Manager or Manager of Information Services Director, due to the fact that technical telecom applications integrate very closely now with computer and network operations. This department usually has the expertise to understand the applications of voice and data within their own networks.

The problem with the above scenario is glaring. First, many CFO's and organizations mistakenly assume the IT Manager or MIS Director have the time to devote to the telecom billing itself.

A typical \$50,000 monthly long distance billing could take over *100 man-hours* to audit manually, provided the person conducting the audit had the necessary tools, tariffs, knowledge and time.

“It’s not that clients are lazy. It’s simply impossible to stay on top of it.”

**-PriceWaterhouseCoopers
USA Today 7/02**

Secondly, most organizations are *thinly* staffed at the IT and MIS levels, allowing very little time to devote to the monthly billing. The staffing at these positions is typically some of the highest paid within the organization. Devoting a \$90,000 a year salaried employee to the mundane task of auditing every page of a long distance bill may seem like a waste of resources and probably is, at best an exercise in futility due to the lack of tools and knowledge about telecom billing itself. Not to mention, the endless and frustrating task of facilitating credits from carriers who have over-billed.

Even with a dedicated and knowledgeable telecom staff, the resources and available tools this staff has readily available to audit the monthly billing is at best, very thin. This staff normally has other daily issues that consume their time which may include keeping phone lines up, dealing with providers and vendors, implementing new service to new employees, allocating telecom expenses, managing networks, and purchasing and maintaining phones and equipment.

Most employees in these technical positions also have a lot of pride in their expertise. It is unfathomable for many of these valuable employees to admit there is a technical issue that they cannot solve.

Recognizing that no training really exists in this area, and that tools do not readily exist to conquer this problem is the first step to fixing it.

Compounding these issues in most organizations the telecom staff (*if it exists*) and the technical staff in the IT or MIS department, are some of the busiest and most *stressed out* employees within an organization. Normally, the *last* task they can envision completing is a complete *monthly* audit of their providers’ billing.

III. What Resources Are Available To Ensure Correct Billing?

Unfortunately not many resources exist that enable organizations to audit monthly telecom billing in-house. Our research has found that no applicable software exists in the open market for sale, to purchase by an organization desiring to monitor these expenses internally.

The reason for this is fairly simple. There is no existing standard whatsoever from one telecom provider to the next regarding the billing format, type, computer-code, etc. that could reasonably be written, that would cover all aspects of billing from all different billing format types.

Those organizations that do have internal software designed to meet this requirement have either had to develop this software internally or hire an applications service provider to actually write software that will work specifically within the organization.

“Most businesses haven’t spruced up billing and accounting to keep pace with the complex services, creating a system riddled with waste – paying for inactive lines, ignoring discounts and failing to spot employee fraud ...”

-Forbes 8/01

In the organizations that have written specific computer language to deal with this issue, inherent problems plague these applications that the ASP (or internal code writers) does not address, including but not limited to the following:

- a) *Basic lack of understanding of how telecom tariffs apply to their traffic*
- b) *The de-tariffing of Interstate long distance rates*
- c) *Serious flaws in the construction of contract terms in the applicable tariff*
- d) *Input of a huge amount of monthly data*
- e) *Management of the data*
- f) *Lack of tools necessary to procure credits or refunds*
- g) *The dynamic requirement of constant updates due to changing tariffs & billing structures*
- h) *Manipulation of data from paper, cd-rom, or electronic billing into the application itself*
- i) *Writing code to apply to one provider tariff-type, then making it instantly obsolete when a change of provider is made by the organization*

These issues make design, cost, and maintenance of an internal auditing system for telecom billing only available to the largest organizations with significant telecom and code writing budgets, and with the dedicated resources and expertise necessary to devote to this problem.

These technical, but very real issues leave the vast majority of organizations with little options or hope of tackling this problem internally. Meanwhile, money continues to flow out of the organization unknowingly, due to the inability to regulate, control, and audit this large budget expense item.

Another option is to outsource this auditing function. There are several firms in the U.S. that do provide this service. Most of these firms work on a performance or contingency basis. Although using this resource is better than no audit at all, there are significant differences within this community that any organization should investigate before retaining and using a telecom auditing consulting firm.

“83% of telecommunications professionals say managing telecom has become more difficult in the past 5 years.”

-ICR Group 6/00

Most telecom related auditing firms are regional in nature. The companies tend to be small mom & pop types who have extensive experience normally accumulated by extensive experience working in the billing department of a major LEC (local exchange carrier) such as Southwestern Bell, Ameritech, PacBell, or Bell South.

These firms are generally excellent resources for performing historical audits or physical circuit inventories to determine if you are still paying for disconnected circuits. Most of these firms will work on an hourly or contingency basis and generally charge 40-50% of what they successfully recover.

What you can expect when engaging a “retro” type audit firm:

- Contingency Fees ranging from 25-50% depending on volume.
- Very little application of technology – still performed manually in most instances.
- Slow turnaround – typically longer than six months.
- Very regional expertise, based on auditor’s experience.
- Very limited in consulting.
- Inherent resistance to educate clients.
- Engineering experience typically limited to local dial tone.
- Tendency to “cherry pick” easily identifiable targets – no way to determine how comprehensive the audit actually was conducted.
- Reporting mechanisms generally lacking.

Using this type of auditing firm is better than no audit at all, realizing you are giving up half of what you have overpaid.

Using this type of audit firm however is generally a sign of a larger and more symptomatic problem – the lack of financial controls relating to your telecom billing and auditing processes.

Another solution to gain control over the complexity of telecom billing is to hire a BPO (Business Process Outsource) that is focused and has an established niche in the telecom sector. Although this

sector in the BPO market is relatively new, this is becoming an exciting alternative to traditional auditors and the expense of in-house audit and processing staffs.

BPO companies have sprung up in most areas of finance, but traditionally have been focused on accounts payable processing (not involving auditing) and human resources. An accounts payable outsourcer can process and pay a telecom invoice, however there is specialized expertise involved in paying a "correct" invoice and verifying the validity of the charges on such an invoice.

Advantages of using a BPO for your telecom billing functions:

- Manage difficult and complex telecom bills.
- Track moves, adds & changes back to the billing.
- Simplicity and design of charge-back and/or cost allocation models.
- Optimization of rate plans and economies throughout the enterprise.
- Real impact to the bottom line in over-billing recoveries, etc.
- Auditing invoices according to standard accounting practices.
- Improves company focus to core-competencies.

**“Cheating has become a way of life for the telecommunications industry,” says Steve Blumenthal the State Attorney General of Connecticut
- 60 Minutes 12/01 of Connecticut**

IV. Why is Your Telecom RFP/RFQ Doomed to Fail?

This simple answer is lack of information and/or knowing how to assemble this data in a meaningful way. Unless you have dedicated telecom staffing within your organization, this expertise is lacking in most requests for pricing.

A telecom “fingerprint” must first be established to determine exactly what your telecom traffic, tendencies, and requirements include. Only by establishing this “fingerprint” that is unique to your organization can you achieve a true overall view of how individual tariffs and rate structures will apply.

Again, because of lack of knowledge and available information, the fact remains that your organization probably does not have the resources available to establish this “fingerprint”. Without this information, your staff will rely on salespeople from the providers or carriers to base your organization’s decision. This means literally a decision worth thousands of dollars per month could be based on which salesperson your staff likes or trusts or does the best job winning over your staff.

Because of the ever-changing nature of telecommunications, many of the expertly trained sales staff that exists with providers is reserved only for the very large global accounts. This leaves your organization normally with very green and very biased sales people with which to base very important provider and tariff choices.

Many decisions are based on fragmented information and the old “*bait and switch*” technique that many telecom providers still subscribe to. An example of this is the provider quoting rates that only apply to a portion of your traffic or services, without knowing how the rest of the tariff applies to your unique “*fingerprint*”. This almost always results in the provider making *larger* than necessary profit margins in other areas your organization did not recognize.

Many additional factors can weigh in and doom your RFP, in addition to the above, including but not limited to:

- a) *The “exhaustion” factor of dealing with multiple prospective vendors and the sales techniques used by each.*

- b) *The time involved with not only assembling information to construct the RFP, but also meeting with the prospective providers individually, and training them on the specific needs of your organization.*
- c) *Adequately understanding what particular providers are good at, and what they aren't - including customer service.*
- d) *Assurance that your salesperson who sold you today will be at the carrier or provider when a billing or service issue arises (and they will).*
- e) *A contact with each provider that has enough knowledge and expertise to understand fully how any proposed applications will affect your overall organization and the real net costs associated with that application. Does the application really benefit the provider or your organization?*

Without establishing a telecom "*fingerprint*" it is easy to see how the current process will be flawed. Again, this is an area where a consultant can be an important asset in this overall process. The consultant however, must have the expertise, technology, and understanding of your organization applications to effectively construct, process, and *implement* any bid process and the changes that result from this process.

V. Why is "Bundled Billing" & "Bundled Solutions" a Myth?

The most misunderstood, overused, and mostly fictitious terms used in the Telecom industry over the last few years is "*Bundled Solution*" and "*Bundled Billing*".

This term - which has been bantered about very freely by most telecom providers, including CLEC's (*competitive local exchange carriers - companies that compete with the baby bells for your dial tone local access lines*), is used to define a telecom solution where one carrier, hence producing one bill for customer, provides all services. Basically the provider becomes a "one-stop" shop for all telecom services.

The idea behind this solution is twofold. First, there supposedly is one carrier responsibility. This is supposed to translate into one source to call for service problems, adding lines, expanding services, etc. Secondly, this solution would supposedly provide one easy to pay bill.

The dilemma of providers who market this solution and organizations who demand this solution is that it is a nice idea, but virtually impossible to provide with today's technology and telecom infrastructure.

"One is that you can be all things to all people. The only problem is that I am unaware of any case in history where that has worked. The execution of that strategy is harder than the declaration,"⁴ says Steve Kriens, CEO of Juniper Networks.

Currently there is not a carrier that exists in either the local dial tone markets or long distance provider that can provide EVERY solution that may be required by an organization. The closest we ever had to this solution was when Ma Bell was a monopoly. This is when we had a truly "bundled solution" and a truly "bundled billing".

There are providers that offer "hybrid" bundled solutions and billing. The CLEC's that also provide long distance rely on this traffic traveling over fiber optic lines and switches owned by any number of long distance carriers. In effect, the CLEC is a "re-biller" of services for the long distance company.

Since many CLEC's offer long distance as a "bundled" service to go along with their local dial tone, many organizations are led to believe it is actually a one carrier accountable network, when in

⁴ Forbes Magazine April 16, 2001, Page 70 - Quote by Steve Kriens, CEO of Juniper Networks.

fact it is not. Additionally, most CLEC's do not offer any type of frame relay or dedicated data circuits outside of their local service areas, which currently are extremely limited.

Recently, some incumbent Baby Bells such as Southwestern Bell have won the right in court to sell long distance services in their regions. The same problem exists with the incumbent Bell Company. They are required to use existing long distance carrier networks to carry long distance traffic, or else spend billions of dollars investing in their own long distance network.

The same can be said for the long distance carriers. The huge infrastructure required to build what Ma Bell took 100 years to build is a financially daunting, if not impossible task. In cases where a local dial tone solution is offered, it is normally a "re-sell" of a local incumbent Baby Bell.

When speaking of Verizon's bundled service offerings CEO Ivan Seidenberg states, "...customers generally sign up for a combo of local and long distance to simplify their lives, not to save a few bucks."⁵ He goes on to state, "A bundled buyer is fundamentally a better customer"⁶.

The idea of a provider giving your organization a fully "bundled" solution and billing is totally a marketing ploy. The providers and carriers have recognized this trend and have tried to capitalize on it from a marketing perspective. It is purely smoke and mirrors.

In addition, by "unbundling" services most organizations can gain substantial savings. Of course this will mean paying more than one provider invoice, but well worth it. Telecom providers' margins are squeezed very narrowly on re-sold services. This usually translates into lack of dedicated service personnel to adequately service the needs of client

organizations. Until providers have the adequate infrastructure built and are able to bill organizations in one integrated billing platform, with true singular provider responsibility, the "bundled" solution will remain a myth, and a clever marketing ploy.

In any business or organizational structure, "better" customers are usually defined as those most profitable to the organization. Organizations that demand one bill will suffer by paying more than their counterparts who prefer to "unbundle" for cost savings.

"A growing school of thought holds that the completely deregulated telecom world of the not-too-distant future will be better suited to narrowly targeted service providers who do one thing very well - the exact opposite of the Verizon model."⁵

"A growing school of thought holds that the completely deregulated telecom world of the not-too-distant future will be better suited to narrowly targeted service providers who do one thing very well - the exact opposite of the Verizon model."⁵

VI. What Terms Should Be Avoided In Carrier Contracts?

Procuring and purchasing telecom services from carriers and providers has become a minefield riddled with hidden terms and costly penalties in recent years. With ever shrinking profits, carriers and providers have invented unique terms in their contracts that ensure profits for the provider at the expense of your organization.

Carriers will offer "better" terms and rates if you are willing to commit to an annual dollar volume commitment and term agreement typically spanning one to five years. In exchange for this written contract, you are guaranteed certain "discounts" or tariffs.

The obvious problem with these contracts provided by carriers (*especially long distance carriers*) is that they are so heavily weighted in favor of the carrier. There also exists severe shortfall penalties and clauses that make escape from the carrier (*even for service issues and/or cause*) extremely difficult to understand or manage.

⁵ Forbes Magazine Article, April 16, 2001 – Page 70, Scott Woolley - Author
Copyright 2002 - All Rights Reserved. Teligistics, Inc.

One of the easiest mistakes in entering into a contract with a carrier is being led to believe the term needs to be three years or greater. A five-year contract is absolutely ludicrous and very costly in the long run. Competition has driven long distance rates down 5-10% or more per year. If you enter into a long-term agreement the discount you believe you are receiving now will penalize you in two years as *your rates will be 10% or more above market*.

Negotiating and signing a "*discount*" contract instead of a "*net rate*" agreement is also very costly. The terms listed in most of these agreements only "*guarantees*" the discount off of some abstract tariff that "*may be amended from time to time per FCC rules*". This leads organizations into believing the carrier has no control over rates such as what existed **pre-deregulation**. This is a term in the contract that survived the deregulated era. Think about this..., your

organization is contractually committed to spend a certain dollar amount over a certain amount of time with a carrier that can change rates at *any time!* The sales person will inform and try to assure you that this never happens. Only agree to and enter into "net rate" agreements.

Another easy mistake to make is entering into a contract with a carrier with only one or two rates listed. This is typically the Interstate (*state-to-state*) and the Intra-state (*within one state*) rates. Typically you may receive a competitive rate on these two lane segments of traffic but in actuality receive the highest rates the carrier has for calling card and international rates. A term contract *must* include the complete tariff of net rates to assure your organization of the best deal. This means rates from *every country to every country*, with *every type* of call imaginable covered in the agreement! The above recommendation also applies to any fees assessed by the carrier. This can and usually does include fees for all 800 numbers, plan fees, etc.

Many carriers will inform organizations that their amount of volume does not justify any type of special pricing. Do not believe it! The competitive landscape in the telecom market define those who have the best market data and negotiating skills to cut the best deal for their own organization.

If your organization has specialized data applications, a *Service Level Agreement (SLA)* is a must. These agreements spell out service requirements and guarantees, including committed bandwidth. This takes a greater degree of knowledge and an expert should be used to negotiate at this level.

Overall, these agreements can vary greatly from carrier to carrier and requires some specialized knowledge, market data, and basic negotiation skills to win the best deal for your organization. If these traits are not available in your organization, it is best to use an expert (*a telecom consulting firm*) to negotiate these agreements.

Never Enter a Telecom Agreement Without the Following Clauses:

- A *Technology Upgrade* clause that stipulates any changes that the carrier or provider must meet compatibility standards with any Technology that your organization may implement.
- A *Business Downturn* clause that stipulates the carrier or provider will renegotiate the volume commitment due to a reduction of revenues by the organization.
- A *Net Rate Guarantee*, which was covered above. Anybody can guarantee a discount of an imaginary rate. The only rate that counts is the 'net' rate.
- *Service Level Agreements* are also mentioned above, especially with data or Internet applications.
- A *Rate Drop Match* clause, which gives your organization the right at any point to renegotiate rates based on a certain percentage drop. The provider or carrier would then have the option to match the rates you are currently being offered or walk.
- A *comprehensive and complete* set of rates and fees for all possible traffic definitions.