
Internet Company Exclaims Telecom Services Sourcing Success

Executive Summary

As Internet use continues to expand, businesses are spending more and more money on infrastructure to ensure employee access to the global information network. However, many companies have failed to scrutinize the value they are getting out of traditional telecommunication services such as local and long distance.

Ironically, a brand-name Internet concern found it was no exception – it had failed to fully strategically source its business operations telecommunications spending and was paying more than it should. In fact, it was even faced with liabilities for services it could not use from poorly sourced contracts it had picked up through an acquisition.

As a result, the company turned to telecommunications sourcing experts in Avotus Corp's Intelligent Communications Management (ICM) e-Procurement group (formerly Applied Research Technologies) to tackle renegotiating a number of its multi-million dollar business telecommunications service contracts. Through Avotus ICM e-Procurement's online reverse auction process, the company has been able to save as much as 82% on a variety of telecommunications services, as well as use the leverage it gained in the competitive environment to negotiate itself out of the \$1.5 million acquired liability and into more flexible contract terms overall.

Business Challenges

Running a global Internet-based company, this U.S. firm feels it has good control over telecommunications spending because it has strict procurement policies and record keeping in place. Service orders and new requests are funneled through a telecommunications group, and any personal service requests have to be authorized through the human resources department.

The company uses a third-party telecommunications invoice analysis and validation service company-wide to ensure on-going contract compliance, so it does not feel it is losing money on billing errors. However, it wanted to ensure it was getting the best base rates it could achieve in its contracts, but sourcing was bogged down in manual processes.

Selection Process

The daily business operations division of this Internet company was spending millions on local, long distance, and network services when it hired Don Barber as its new worldwide telecommunications manager in 1999. Barber had been familiar with Avotus ICM e-

Procurement from a positive experience at his previous employer, and suggested the company when he needed help in sourcing new services in his new role.

Barber liked Avotus ICM e-Procurement for the group's industry expertise, its unique ability to provide a hosted reverse auction environment to drive down telecommunications costs, and its record of aggressive savings success. He also appreciated Avotus ICM e-Procurement's ability to shrink sourcing time and effort as well, as the typical process in the past had been to request information by phone and mail six months prior to contract expiration to try to be prepared in time.

Deployment

The Internet company first engaged with Avotus ICM e-Procurement in 2000 to improve its process for sourcing local dial tone and direct inward dial services. Following a positive experience, the Internet company again contracted with Avotus ICM e-Procurement in 2001 for voice services.

Most recently, the Internet company faced a \$1.5 million contract breach liability when it acquired another Internet technology firm. The acquired firm had negotiated its telecommunications service contract during the Internet boom times and had committed to volumes it could not keep after it reduced its workforce and closed a number of offices.

To resolve this issue, the merged company worked with Avotus ICM e-Procurement in late 2003 to reach out to its existing local and long distance suppliers to submit new bids for business. As it had in the previous two Avotus ICM e-Procurement engagements, the Avotus team collected all the relevant telecom spend data from the accounts payable department as it was not readily available from any other sources within the Internet company.

Avotus ICM e-Procurement held a reverse auction for 7 days at the end of December and received 64 bids from the 7 carriers. In total, the company reviewed 65 different accounts held with 7 carriers, including AT&T, MCI, Sprint, Global Crossing, and Telstra. Not wanting to change carriers, the Internet firm also asked Avotus ICM e-Procurement to provide a recommendation on expected savings from its incumbents based on market competition for the business.

Results

Using the ICM e-Procurement web auction platform the first time, the company cut three months out of its typical manual request for proposal (RFP) process. It also shrank actual negotiations down to four days from months' long negotiations in the past.

Overall, the company was rewarded with 40% hard dollar savings on its voice network service over a 24 month period. The Internet company was also able to establish more favorable contract terms, such as no contract term time period or volume obligations, giving it more flexibility in the market.

Following the most recent reverse auctions for local, long distance, and data network services, the company secured new rates at 73% overall savings. The network gigabit Ethernet service had the most impressive results, shrinking 82% per megabyte.

Furthermore, when the Internet company identified a few additional invoices for services the telecom manager was not aware of at the time of the auction, Avotus ICM e-Procurement was able to garner a further \$2.16 million contract savings on 4 additional services with an incumbent carrier. Barber noted he was impressed Avotus ICM e-Procurement did not even charge him extra fees for the subsequent negotiations.

Lessons Learned

Barber noted that his company's personnel only spent approximately 10 hours involved in the most recent sourcing engagement from start to finish. The activities were also high-level, mostly approving auction contract outcomes, as almost all of the sourcing administration burden was removed from the company.

Overall the telecom manager cites the Avotus ICM e-Procurement project as a very efficient use of his time, which can now be dedicated to more strategic tasks like business continuity planning. Another key benefit was that the company did not have to change any of its carriers and incur any costs associated with changing infrastructure in any way, yet was rewarded with great hard dollar savings and stronger contracts.

Future Outlook

Barber noted the sourcing activities can really impact the company's bottom line. If the most recent telecom service rate adjustments are fully realized over time and the monies are removed from the company's operating costs, he said it could have the effect of an increase to the company's earnings per share by a half a penny.

Aberdeen Conclusions

In spite of skepticism that reverse auctions can only deliver big savings once, this company is an example of how a firm can continuously improve its rate terms through an online competitive environment. It also illustrates how an automated technology platform built with industry expertise can remove a tremendous administrative burden from companies while simultaneously delivering improved results.

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Aberdeen Group performs projects for a select group of domestic and international clients requiring strategic and tactical advice and hard answers on how to manage computer and communications technology. This document is the result of research performed by Aberdeen Group, which was underwritten by ART. Aberdeen Group believes its findings are objective and represent the best analysis available at the time of publication.

Abstract

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