

Do Telecom Expenses Really Matter?

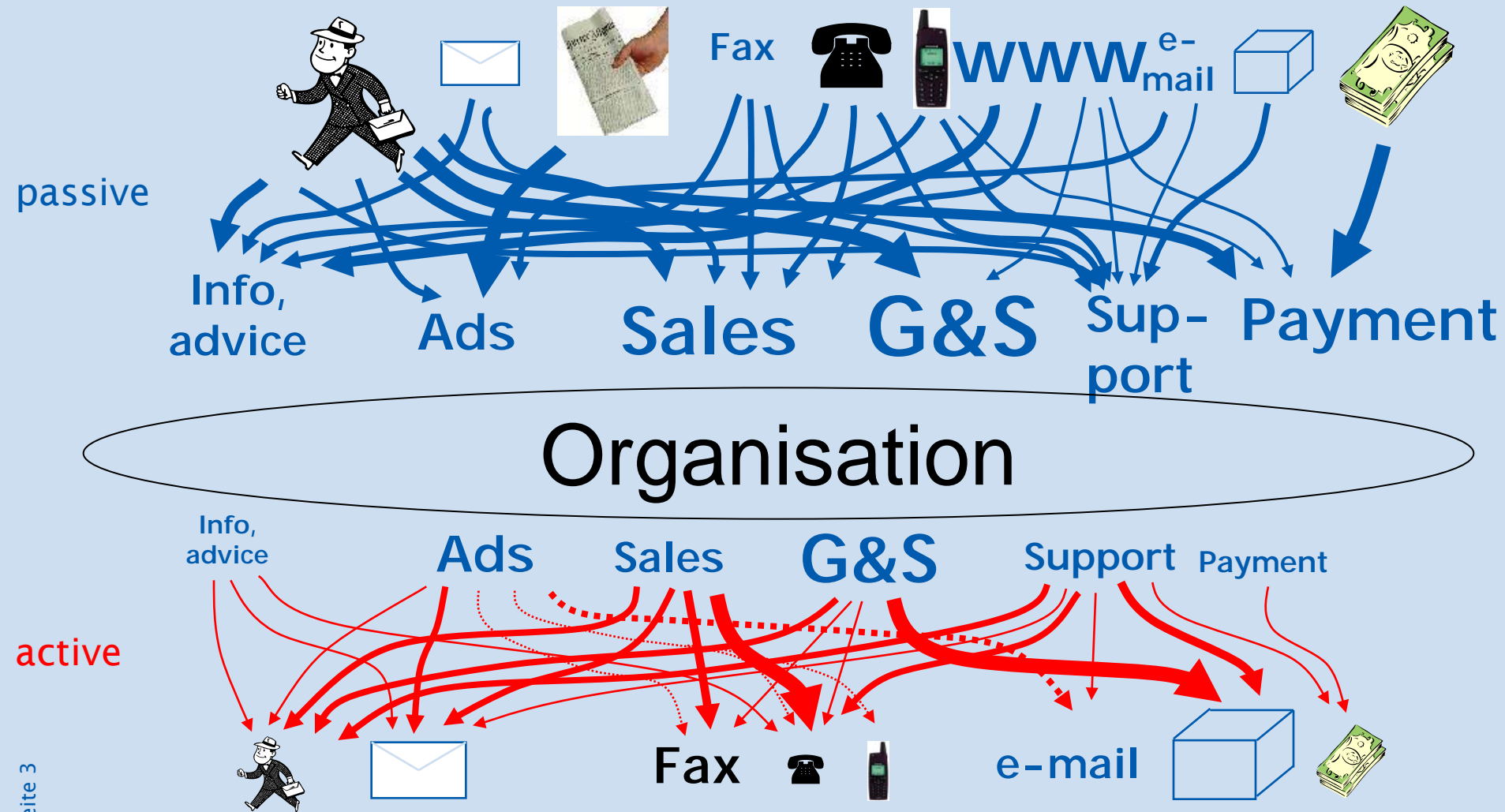
**“Telecom Expense Management”
marcus evans conference
Berlin 2010**

- Communication is a natural expression of life, not only in business
- People cannot „not communicate“¹
- Human communication
 - has two ends (send and receive),
 - several (4²) independent layers
 - serves manifold purposes
- Basic cause of telecom expenses is
 - the need to communicate in combination with
 - the technology to do some of it without personally meeting or writing on real paper

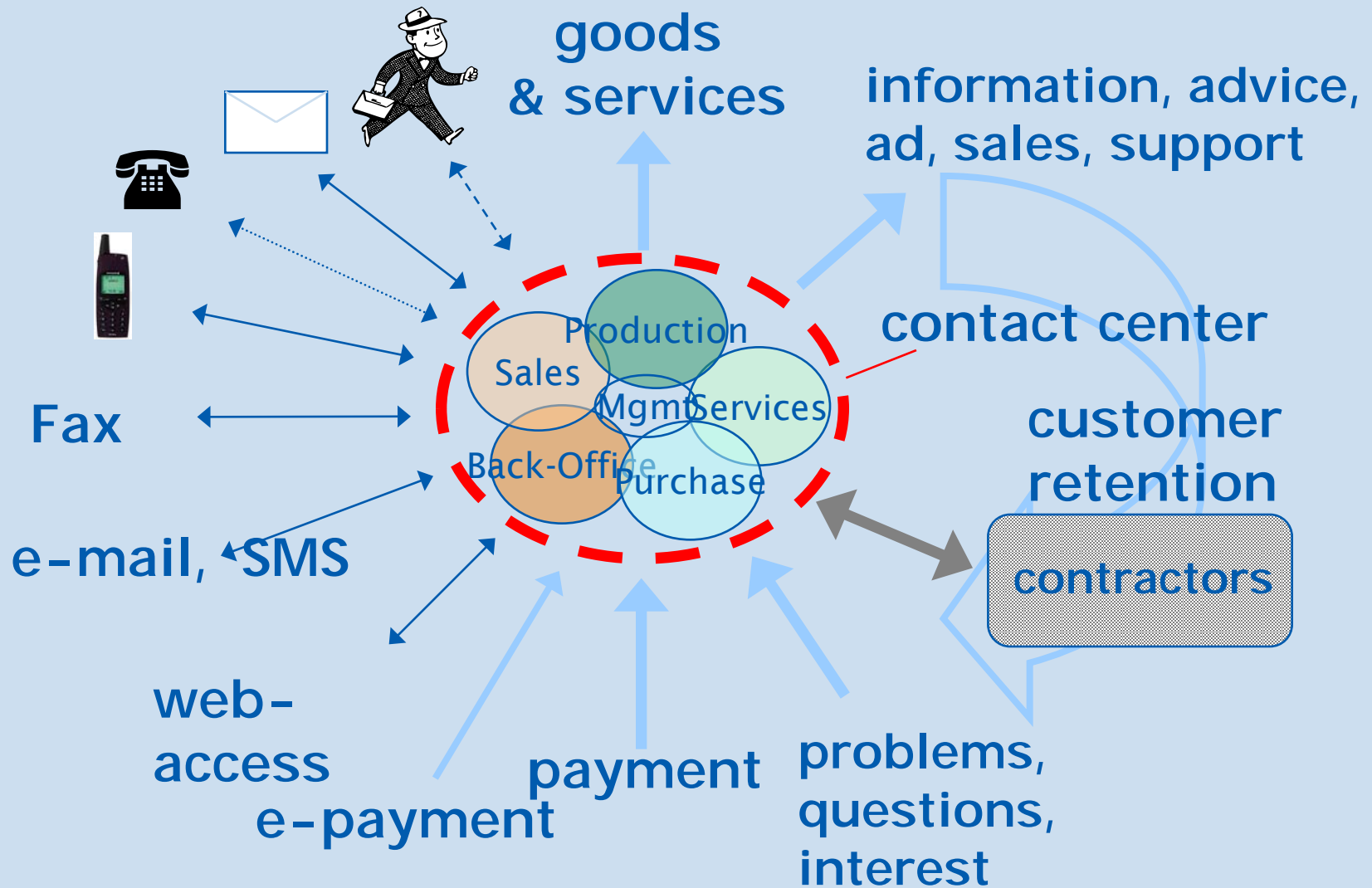
¹ Paul Watzlawick in “Menschliche Kommunikation”

² according to the “Communication Square” of Friedemann Schulz von Thun

Intro - communication with customers



Intro - situation in an enterprise



- In 2003 Nicholas Carr wrote:
„IT doesn't matter“³
- His (controversial) conclusions were:
 - Spend less!
 - Follow, don't lead!
 - Focus on risks, not opportunities!
- They were based on his finding, that IT had ceased to be a strategic advantage, but had become a ubiquitous commodity
- Telco is not the same, but today, there seem to be similarities!

³ N. G. Carr: „IT doesn't matter“, Harvard Bus. Rev., May 2003, 41ff

Agenda

1. TEM is fine, but isn't actually profit what it's all about?
2. TE vs. total telecommunication costs
3. What revenue does it bring?
4. Is TEM really fine? Or do we optimize peanuts, possibly on the account of other activities?
5. Conclusions

1 Profit = Revenue - Costs

- Can we evaluate this equation for telecommunication?
 - TE are usually only a small part of the total costs of telecommunication
 - the total costs of telecommunication are hard to define and usually unknown
 - the revenue-contribution of telecommunication is even harder to define
 - the resulting profit contribution may be negative
- If we can't, how much sense can it make to manage Telecom Expenses?

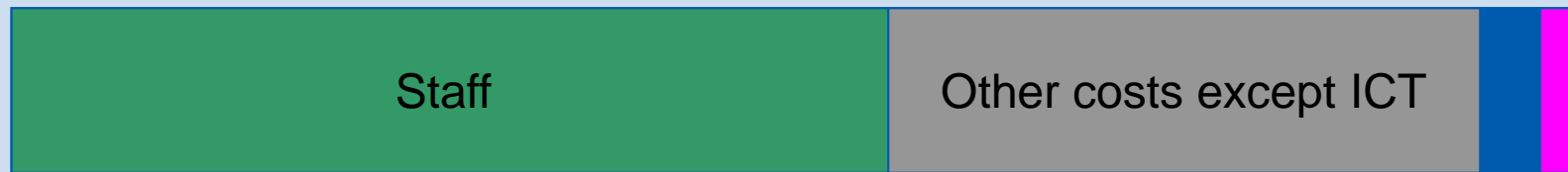
1 Profit = Revenue - Costs

Well, that may depend.



2 TE vs. total telecommunication costs

- The total expenses for telecommunication exceed by far what we pay the providers:



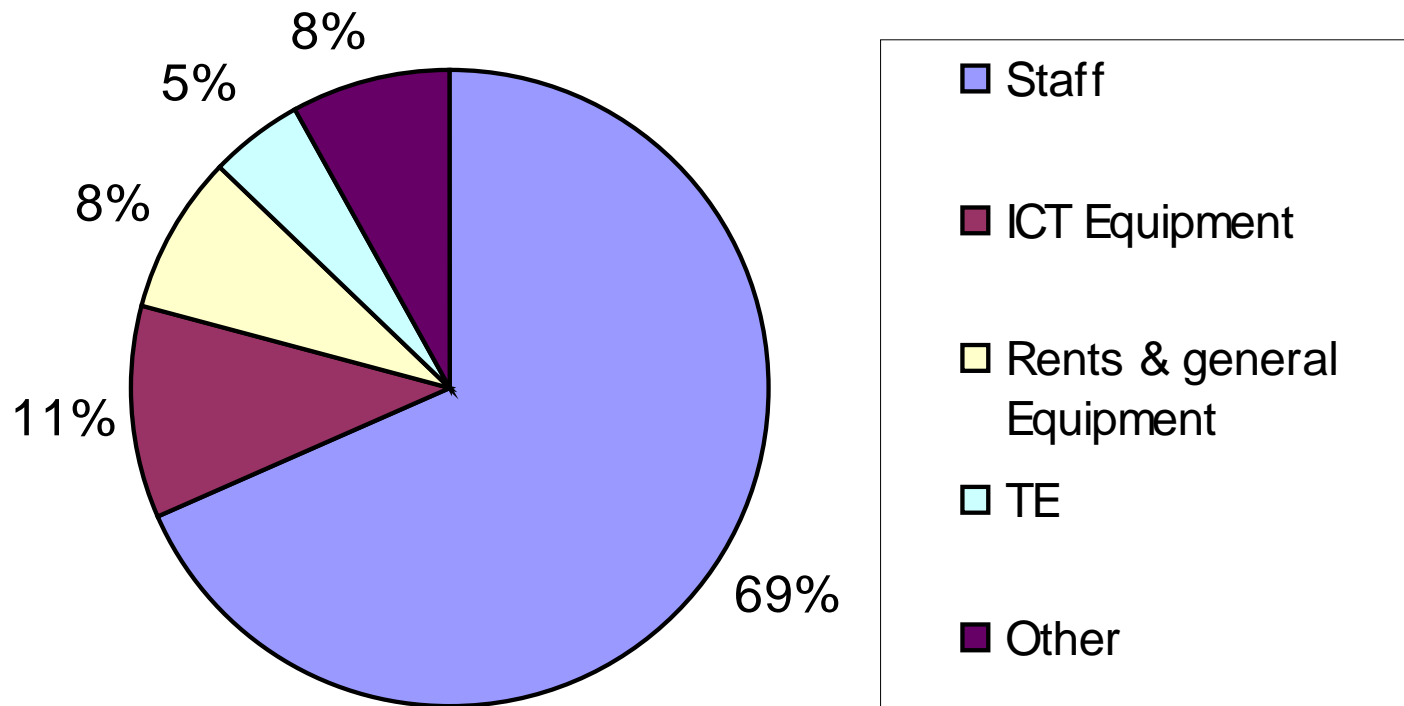
- Every time someone communicates, it costs not only TE, but also the TCO share of the ICT equipment plus his/her salary (plus all overheads)

TCO share of ICT infrastructure
What we pay service providers

2 TE vs. total telecommunication costs

- We have quantitative evidence for this from call centers since many years, e.g.⁴:

Cost distribution in German Call Centers (After: W. Wiencke, Profitel Call Center Benchmark, 1999)

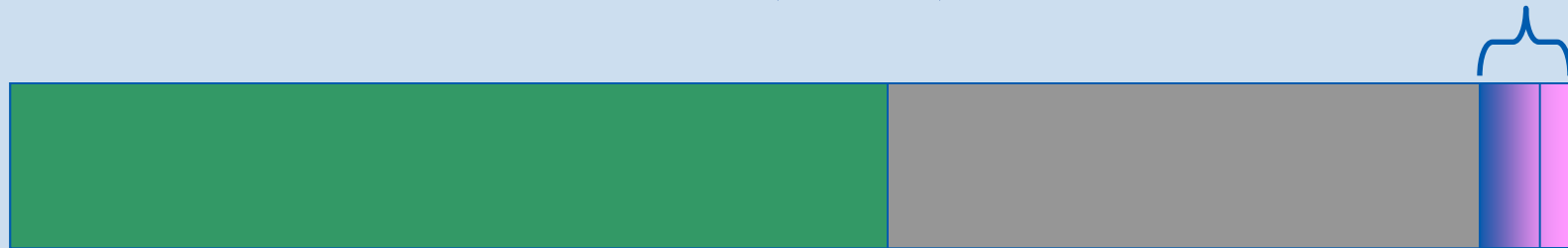


2 TE vs. total telecommunication costs

- The ratio of here 13,8 (= 69% / 5%) gives only a lower limit of the relation between the cost of communicating staff and TE.
- In case of more expensive staff (and higher value of assets), which is common, this ratio will be even higher.
- There is an increasing unwillingness to compare or discuss details of telco rates.
- Today, people prefer one or two (low!) flat rates for all services: Ad

2 TE vs. total telecommunication costs

- New offers of providers (like VoIP-centrex) and ICT vendors (like rent, lease or managed services) may blur or change the cost structure.
- But: Only the components TE (pink) and ICT infrastructure TCO (blue) are affected ~5%



- The main cost factors remain untouched

2 ...and this is not all there is to it!

- There is no free communication!
- But isn't internal communication free?
You could hardly be more wrong!
- Internal communication = double trouble.
- „Invisible“ communication costs add on top:
 - Any unsolicited communication event leads to a distraction from the original activity (provided, there was any) flushing the short term memory
 - It then takes an average of 25 minutes (!) until the original activity is resumed⁵ – if it is

⁵ Frank Schirrmacher, “Payback”, p. 65, Blessing, 2009

3 What about the benefit side?

- Different approaches may be made to define the revenue of telecommunication
- There are only very special cases, where we have a chance (e.g. call center)
- Profit may be achieved indirectly by doing things cheaper, faster, better, using telecommunication
- Calculation is the easier, the more repetitive or simple the events are and the harder, the more creative and non-recurring

4 Is TEM really fine?

- TE are usually marginal, a $<1\%$ figure, the whole ICT budget being typically $\sim 5\%$ of an organisations total budget
- The total cost of communication (usually unknown) is 15 to ~ 50 times the TE
- \Rightarrow manage to communicate 10% less, and you will gain more than all of your TE!
- Optimizing one tiny part of the total costs may lead to bad overall results by negative, possibly leveraging effects in other areas.

4 Is TEM really fine?

- Really? How is that possible?
- We try to manage complex, open systems
- We like to use simplifying concepts and models successful in the technology of the 19th century :
 - Use the cause-and-effect principle
 - Decompose organisations into subsystems
 - Make mechanistic functional models with input/output variables for the otherwise isolated subsystems and sum them up
 - Conclude logically from inadequate data

4 Is TEM really fine?

- If models are inadequate, following them may lead to thorough failure⁶
- What is the problem, then?
- Merely quantitative differences, beyond a certain point, pass into qualitative changes⁷ - and typically not for the better
- Remember certain gas pedals or bank businesses, optimized over many years
- But there are also examples for ICT

⁶ e.g. Henry Mintzberg in “The Rise and Fall of Strategic Planning”, 1994

⁷ Karl Marx said that

4 Is TEM really fine?



Make sure that
you don't try to
wag the dog
by the tail!

5 Conclusions

- Governments have been eager to implement competition. Make use of it wherever possible to:
Spend less!
- Mind the global technology-waves:
 - ISDN, GSM, UMTS, LTE
 - Voice over IPv4, NGN
 - and, soon to come: voice (and all the rest) over IPv6
- **Follow** them where you can benefit
don't lead – and be aware you cannot stop them
- Don't take chances on investments in private telco infrastructure. **Focus on risks, not opportunities!**
- TEM is nice, but it lacks strategic importance. Don't "do things right" here, better do the right things:
- Find out why, how much and how efficiently you communicate. You may be far better off.

5 Conclusions

- So, do TE really matter?
- Do lighting-, air-con-, water-, or fuel-expenses really matter?
- They may.
- Sometimes.
- To a certain extent.
- [IBM Video](#)

Thanks for your attention!



- Please comment or ask questions!

- For later comments or questions:
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