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Telecommunications Sourcing: Enterprises Need a Strategic Approach to Maximise Business Benefit

*Global Survey Finds That Enterprises Can Improve
Service Quality and Save Money by Adopting Best
Practice in Strategic Sourcing of Telecommunications
Services*

A commissioned study conducted by Forrester Consulting on behalf of
Hudson & Yorke



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Executive Summary

Enterprises spend as much as 20% of their total IT budgets on telecom services, but in Forrester's experience CIOs do not allocate anything like one-fifth of their time and skilled resources to their telecom strategy, sourcing, and contract governance.¹ As a result, they waste money and receive less than optimal levels of service quality from service providers. To reduce costs while improving service, we conclude that CIOs should follow a number of best practices:

- **Get the technical and service strategy right before starting the sourcing process.** First, Forrester recommends that enterprises should develop a telecom and network strategic plan to identify the business' future telecom requirements and to evaluate alternative technologies and services to meet these needs.² The network strategic plan should dovetail into the IT strategic plan and should be updated every six months. Constant innovation needs to be at the core of the strategic plan.
- **Develop an appropriate telecom sourcing strategy.** Organisations can achieve significant benefits from multisourcing.³ Multisourcing telecom can reduce costs, improve service quality, and encourage innovation. However, it requires a higher level of organisational maturity than single-sourcing; organisations should understand their own maturity level and not attempt a sourcing strategy that they cannot successfully execute.⁴
- **Commit adequate resources and time to the sourcing processes.** This study has shown that most firms underestimate the time it takes to carry out a major telecom sourcing exercise and that skimping at any step of the process has a significantly adverse effect on the outcome. There is no magic to successful telecom sourcing except careful attention to detail at each step and the use of a sufficient quantity of suitably skilled resources.⁵
- **Engage external help in critical areas.** Enterprises typically negotiate a major telecom contract once every three or more years, so internal teams cannot possibly have the experience, skills, and tools that are anywhere close to best practice. The use of external professional assistance in key tasks like the RFP process, SLA and performance metric design, and legal drafting results in significantly better levels of satisfaction with outcomes, and the costs involved will more than pay for themselves in lower service charges and better service quality.

In short, enterprises must stop treating telecom as an afterthought or a commodity. The convergence of IT and telecom, together with enterprise strategies like data centre consolidation, server centralisation, virtualisation, and cloud computing, coupled with increasing mobility, has put the use of telecom at the heart of an enterprise's IT strategy, which itself is increasingly key to business success. Constant innovation in both the use of telecom technologies and how they are purchased requires increased levels of attention and skill.

"Our board members recognise that the network is increasingly critical to our business success. We developed a detailed strategy with the objective of rationalizing the number of telecom suppliers we use and reducing our overall costs. We have been extremely pleased with the results." (CIO at a consumer products manufacturer)

In 2010, CIOs are required by their CEOs and CFOs to do more with less: to deliver more services and improve quality and at the same time to lower costs and reduce staff levels.⁶ The use of outsourced and managed IT and telecom services is seen by enterprises as a strategic way of achieving these seemingly impossible dual goals.⁷ Some of the best examples of what not to do come from reviewing the lessons from failed outsourcing and managed service deals; the challenge

facing CIOs is how to harness that experience to ensure that they use best practices to deliver telecom sourcing deals that meet the unprecedented challenges facing enterprises in 2010 and beyond.

“We outsourced all our IT and telecoms to a single service provider a few years ago, and it has not been a very satisfactory experience. The contract is now coming to an end, and we would like to bring some of the work back in-house and try a different approach perhaps with several vendors in a ‘best-of-breed’ approach, but we are short of many of the key skills required to design and manage the transition process.”(CIO at a financial services organisation)

Background And Summary Of Conclusions

Forrester Research has assisted numerous large enterprises with the sourcing and governance of telecom services over many years and as a result of this experience holds the view that many large companies fall well short of best practices in the execution and management of these contracts. The hypothesis underpinning this study was that enterprises could save millions of dollars a year by adopting best practices and that this would also result in improved service quality.

To illustrate the size of the potential savings, the revenues of the top 500 companies in the Forbes Global 2000 are \$20,000 billion.⁸ Forrester’s estimate is that they spend about 3% of turnover on IT, which represents a total IT spend of \$600 billion.⁹ Twenty percent of their IT spend is on telecom and network services, representing a spend of \$120 billion per year. Our hypothesis is that 80% of all telecom deals are not as good as they could be, and that firms could save as much as 20% of total contract spend if they followed best practices. That equates to \$19 billion a year wasted — and that’s just for the top 500 global corporations!¹⁰

To quantify how telecom sourcing and contract governance best practices can benefit enterprises, Forrester Consulting was independently commissioned to carry out a quantitative survey of 81 organisations with an annual spend on telecom of \$10 million or more. Senior staff in IT, telecom, and procurement in 12 countries participated in this survey, including the US (27%), the UK (11%), Australia (7%), Switzerland (5%), India, Sweden, and Denmark (4% each). The survey included organisations across a wide range of vertical sectors (see Appendix A). The overall survey asked participants to rate how comprehensively they had carried out a number of tasks during the strategy development phase, requirements development phase, RFP phase, and negotiation phase of their largest recent telecom contract. We then requested them to rate their satisfaction with the various aspects of the outcome. We also gathered data about the tasks for which they had engaged external professional assistance. We then correlated the satisfaction scores with both the degree of diligence involved in each step of the sourcing process and the use of external assistance.

Finally, Forrester interviewed in greater detail 15 of those respondents who had reported either very high or very low levels of satisfaction, to get an in-depth understanding of the experiences and learnings behind the statistical results. The report includes a number of quotes from these interviews. In summary the survey found that:

- Seventy-four percent of the executives surveyed told us that their firms had looked in considerable detail at their total cost of ownership (TCO) and current contracts, but only just over half said they had done a thorough job on defining their sourcing strategy, and less than half had done a good job on getting stakeholder agreement to the strategy.
- Twenty percent of enterprises said that they were not very satisfied that they had met the objectives set out in the original business case. The areas of least satisfaction were with

- exposure to post-contract negotiation true-ups (38% not very satisfied) and the speed of execution of the transition programme (46% not very satisfied).
- The greatest impact on satisfaction with the outcome resulted from the level of detail with which the following five tasks were carried out:
 - The use of separate negotiation workstreams for key elements, e.g., the contract, pricing, and service management.
 - The operating model (e.g., decisions about buy versus build).
 - The use of a data room for vendor access during the negotiation phase (this could be a physical room or computer files listing details of existing infrastructure and services).
 - The design of the contract governance and service management functions before contract signature.
 - The negotiation strategy agreed in advance with stakeholders.
 - There was a strong positive correlation between satisfaction with the outcome and the use of external assistance in three areas: assistance with the RFP process, assistance with SLA design and performance metrics and assistance with contract drafting. Firms that engaged outside help with these tasks were significantly more satisfied with the outcome than those that did not.
 - There was a strong positive correlation between satisfaction with deal outcomes and carrying out parallel negotiations with two final vendors through to contract signature, and this finding was confirmed in our qualitative interviews. Conclusion: Parallel negotiations keep competitive pressures in place right through until the deal is signed, which results in better prices and better contract terms. Firms should use this approach wherever possible and resist pressure from service providers to negotiate only with a single final vendor.

¹ The mean proportion of the IT operating budget spent on telecom services (voice and data) was 20.06%. Source: Forrester's Global Enterprise And SMB IT Budgets And Spending Survey, Q2 2009, based on a survey of 2,239 enterprises across North America and Europe.

² Source: "In Challenging Times You Need A Network Strategic Plan," Forrester Research, Inc., November 3, 2008.

³ Source: "Enterprises Need Innovative Telecom Service Options And Flexibility To Address Cost Pressures," Forrester Research, Inc., June 29, 2009.

⁴ Source: "Set A Balanced Strategy For Successful Telecom Sourcing," Forrester Research, Inc., March 18, 2008.

⁵ Source: "Reducing Risk In Global Telecom Services Sourcing," Forrester Research, Inc., December 12, 2008.

⁶ Source: "The State Of Enterprise Networks And Telecommunications: 2009," Forrester Research, Inc., August 7, 2009.

⁷ Source: "European Telecom Operator Managed Services Deals Survey: H2 2008," Forrester Research, Inc., July 10, 2009.

⁸ The Forbes Global 2000 is an annual ranking of the top 2000 public companies in the world by *Forbes* magazine. See http://www.forbes.com/lists/2009/18/global-09_The-Global-2000_Rank.html

⁹ The median proportion of revenue spent on the IT operating budget was 3%. Source: Forrester's Enterprise And SMB Budgets Survey, Q1 2008, based on a survey of 692 enterprises across North America and Europe.

¹⁰ For simplicity, we have not taken into account that several of the Forbes top 500 are telecom operators.