Your Exceptional TEM Program:
Best Practices for Sourcing Using TEM Metrics to Improve Performance

Telecom Expense Management Industry Association

www.temia.org

TECHNOLOGIES

Executive Summary

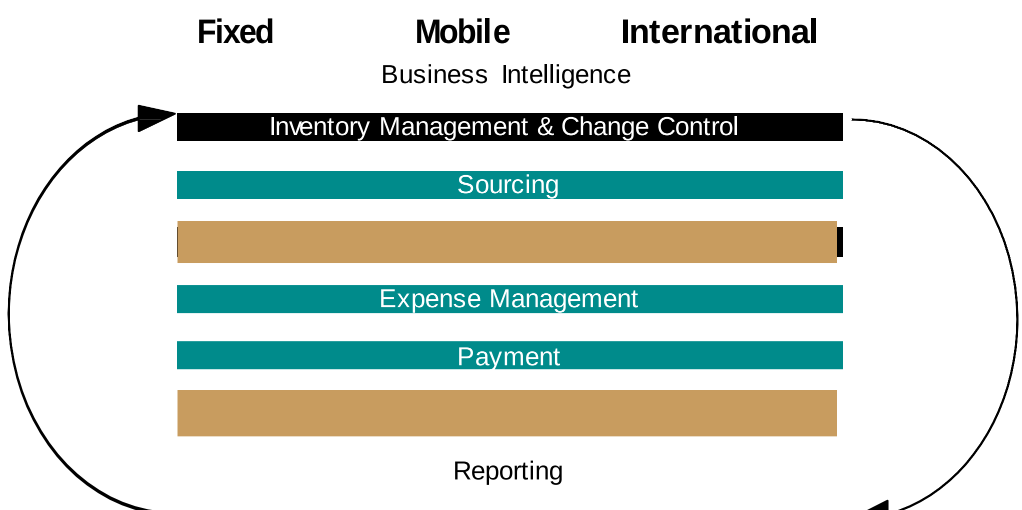
TEMIA is working to establish standards and Key Performance Indicators (KPIs) that can be used by managers and personnel performing operational roles at enterprises and suppliers. These standards seek to answer critical questions regarding performance including:

- ***What are the critical factors that contribute to supplier performance and a better return on investment?***
- ***How do my results compare to "best practice" metrics?***
- ***What Service Level Agreements (SLAs) will drive results?***
- ***How do I measure the success of a TEM solution?***

An effective Telecom Expense Management (TEM) program manages the full lifecycle of a telecom expense. It focuses on eight major service domains, which include inventory management and change control, sourcing, procurement and fulfillment, invoice management, expense management (including validation and optimization), usage chargeback, payment, and reporting for business intelligence.

Figure 1: TEM Components

These standards and KPIs have a direct link to TEM value, ROI, and vendor SLAs.



Enterprises do not have to manage all these domains on their own, and they do not need to go to one firm for all of these solutions. There are pros and cons to consider in having a single TEM supplier that can perform all of these functions or using specialists for particular areas. Regardless of which approach an enterprise selects, an effective TEM program transitions decentralized processes into a unified approach to manage telecom expenses. Programs foster better communication among different groups and the unification of TEM functions to drive better results. The standards and KPIs must meet the criteria of openness and the measures must be quantifiable, universal, and consistent. These metrics align with business value and tie directly to program ROI.

Each TEM component listed above should have measures that tie directly to results and a Return on Investment (ROI). One of the most difficult aspects of reducing telecom costs is assuring proper implementation of new contracts with invoices that reflect the correct contract rates and discounts. This best practice report for sourcing provides objective and quantifiable measures relating to the completeness and granularity of sourcing coverage and contract compliance.

TEMIA's goal in providing this information is to help educate the market and enable enterprises and suppliers to improve ROI and raise the performance of their TEM programs with metrics and specific calculations to measure sourcing results. This report also explains the business goals addressed by sourcing, and actions to address results from each metric.

Sourcing

Performance Metric	Calculation	Service Level Agreement
• Contracts Coverage • Contracts Recognition % • Sourcing Coverage % • Contracts Compliance %	= # of Contract Elements = # of recognized Elements / # Covered = # of purchased Elements / # Covered = 100% - (Cost Discrepancy / Expected Cost of recognized Elements)	Threshold values for performance can establish SLA goals and payments for implementation, and steady state

Sourcing performance metrics help to quantify the size and scope of the contract catalogue. The metrics help to align sourcing or contracting efforts with actual ordering and procurement activities particularly for landline services. Value from these metrics includes reduced costs through ensuring that:

- there are contracts or special pricing to cover all telecom services
- the best price is applied to items that are purchased (*see box below)
- contracts are applied properly to bills
- price differentials relate to location by Point of Presence (POP)

*Most enterprises pay different prices from the same telecom carrier for the same item because carrier billing relies on multiple contracts, addendums to contracts, tariffs, promotions, or special pricing arrangements. For landline services, enterprises are often charged "nonsubscriber" or "list rates," which is referred to as casual billing. Casual billing is due to PIC errors (errors in identifying the Primary Interexchange Carrier), new lines provisioned by the LEC where the Interexchange Carrier (IXC) was not notified, a mismatch of information between the customer records information system (CRIS) and Interexchange Carrier billing systems, and slamming. (Slamming occurs when a customer is switched to another telephone provider without the customer's permission).

A good TEM program will find these different prices and help organizations save money by getting the best price for services.

The primary sourcing performance metrics are coverage and contract compliance.

- **Contract Coverage** is the number of contract elements (rates, terms and conditions) captured in the contract catalogue database.
- **Contract Recognition** is the percentage of billed contract elements that are identified correctly in the contract database.
- **Sourcing Coverage** is the percentage of contract rate elements actually found in bills for the period being analyzed.
- **Contract Compliance** is the percentage of billed amounts that conform to contracted rates and rate elements. It is the primary internal indicator of contract management results, and it is often used in billing quality reviews and vendor contract negotiations.

Contract recognition is the primary indicator of TEM performance and service level agreements for sourcing.

Calculating the Number of Contract Elements

The best way to analyze, track and manage sourcing is to be very granular. One approach is to collect the total number of contract elements by developing a catalog of all the contracts, tariffs, promotions, and special pricing arrangements that an enterprise has with its telecom carriers. In addition, an increasing number of contracts contain global discounts and complex billing arrangements.

$$\textbf{One Contract Element} = \textbf{One price point for a given service at a specific point in time}$$

After creating this catalog, a knowledgeable person needs to interpret the contracts. The number of contract elements is determined by counting each contract element, which includes rates, terms and conditions. Each contract element equals one price-point for a given service at a given point-in-time.

Many of the pricing documents will have different price points for different feature sets and terms and conditions. Enterprises often find that they do not have the resources or expertise to build an inventory of contracts and interpret the contracts. Most TEM providers can provide this additional service when they implement the TEM program. It is also important to recognize that pricing arrangements may change over time so it is critical to have mechanisms to track these changes and dynamically update the sourcing database.

Calculating the Contract Recognition Percentage

The contract recognition percentage is calculated by dividing the number of recognized contract elements by the number of covered inventory elements. Low scores will impair the TEM program and require updates to the contract catalog, further interpretation of contracts, or upgrades to the software to recognize more contracts and special pricing.

$$\textbf{Contract Recognition Percentage} = \frac{\textbf{\# of Recognized Contract Elements}}{\textbf{\# Covered Elements}}$$

Calculating the S Per

To calculate the sourcing coverage percentage, the number of purchased elements is divided by the number of covered elements.

$$\textbf{Sourcing Coverage Percentage} = \frac{\textbf{\# of Purchased Elements}}{\textbf{\# Covered Elements}}$$

Sourcing coverage measures the alignment between sourcing and procurement. A high percentage value for sourcing coverage indicates optimized sourcing results while a low percentage indicates a poor alignment of contracted services versus those actually being purchased and used. In effect, contracts cover the wrong items. In these cases, enterprises will need to re-focus their sourcing efforts on services in use and items whose usage is growing.

Calculating the Contract Compliance Percentage

To calculate the contract compliance percentage, one should subtract 100% from the cost discrepancy divided by the expected cost of recognized elements.

$$\textbf{Contract Compliance Coverage} = \textbf{100\%} - \frac{\textbf{(Cost Discrepancy}}{\textbf{Expected Cost of Recognized Elements)}}$$

Contract compliance measures the effectiveness (or ineffectiveness) of the implementation of special pricing by the telecom carrier. A low score may highlight carrier disconnects between orders placed and contracts in effect. A low result for contract compliance will require submissions of claims with carriers for billing errors and investigations to learn why the carrier is not applying the contracts to its lines, circuits, and services on the bills. Corrective action may require escalation meetings with the carrier account team and more senior managers from the carrier's personnel. Projected over time, rising or falling values for contract compliance indicate a trend in compliance and billing quality.

Using Inventory Metrics as a Diagnostic Tool

Some key challenges identified in each section include:

- Ability to capture the complete range of contract terms and conditions
- Ability to map the permutations and combinations of rates and terms
- Disconnects between orders placed and contracts managed
- Ability to align rates/terms applied across a range of accounts

Service Level Agreements (SLAs)

Service level agreements can include threshold values for performance with common goals for internal and external project teams, payment milestones, and determination of when the program is ready to move from pre-deployment testing to operational status. Using these performance metrics, managers can adjust the sourcing management domain through improved contract coverage, recognition and sourcing coverage.

Managers can identify the cause-and-effect relationships of enterprise activities and carrier processes that impact TEM domains and the ultimate ROI. If performance falls below the SLA threshold, the TEM supplier can proactively manage its performance. In addition, there are opportunities to correct enterprise activities and carrier processes that are adversely impacting performance. People can quickly focus where it will positively impact the program.

Implementing TEM Performance Metrics
TEM performance metrics should be used for pre-planning, supplier selection, contracting, SLAs, project management, performance management and communications. Enterprises should measure performance relating to the eight major service domains of inventory management and change control, sourcing, procurement and fulfillment, invoice management, expense management (including validation and optimization), usage chargeback, payment, and reporting. Effective metrics enable organizations to create the framework to make a TEM program operational.

For organizations that already have a program in place, TEM performance metrics can help establish a baseline as part of project management. These metrics work equally well for business process outsourcing, internally managed programs, licensed software installed behind a corporate firewall, or hosted software programs. They apply evenly to suppliers' offerings, delivery, methods, process, and tools.

Opportunities to gain a deeper understanding of performance in each domain provide program managers with meaningful opportunities to collaborate with the internal team or supplier that is operating the program. The metrics not only tell where problems lie, but they also tell how to improve performance for the domain. With this approach, project management, measurement, and communications can focus on understanding key relationships. Ongoing project management should include use of automated reports that identify trends for the enterprise and supplier on issues that influence SLAs. Metrics provide a diagnostic tool to identify areas for improvement for sourcing. Project management and communications can focus on granular information about performance.

Adoption of TEM performance metrics by enterprises and suppliers will help the entire industry secure better ROI, and align customer expectations, performance, and client satisfaction with communications that provide for continual performance improvements. Adoption of TEM metrics by enterprises and suppliers will help the entire industry aligning customer expectations, performance, industry standards, and client satisfaction with communications that provide for continual improvement. This series of papers is available from the TEMIA website and TEMIA members' websites.

About TEMIA

In 2006, many of the largest Telecom Expense Management (TEM) solution providers established The Telecom Expense Management Industry Association (TEMIA) to raise awareness and knowledge of TEM solutions. TEMIA's ongoing mission is to improve the ROI of TEM solutions and service quality through the development and promotion of clear and understandable industry standards, reasonable performance metrics and to cultivate shared industry knowledge among TEM providers, business partners, telecom service providers, and enterprise clients. TEMIA solution providers help their clients manage over $31billion in telecom and data assets annually. Further, TEMIA members subscribe to a Code of Ethics, which clearly differentiates their level of commitment to their clients. For more information about TEMIA, please visit, http://www.temia.org, contact info@temia.org, or call TEMIA's Executive Director, Joe Basili at 973 763-6265.

About Juvo Technologies

Juvo is a Total Telecommunications Management firm that enables clients to achieve significant financial benefits by maximizing telecom efficiencies. Juvo is able to achieve an average of 15%-25% telecom savings for its clients through the precise management of client's everyday telecom needs, including local, long distance, Internet, data, and mobile devices. Juvo's expertise, industry experience, and trademark software, all combine to provide its clients with industry leading telecom solutions to meet ever increasing demands.

Juvo, an active member of TEMIA, the Telecom Expense Management Industry Association, has clients with operations in all 50 states, Canada, Mexico, and the United Kingdom.

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