

Cost Cutting for Midsize Businesses Through Reduced Network Spending

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Cost containment and savings continue to be an annual exercise for midsize businesses, with reduced network expenditures continuing to be a primary source for cost savings in midmarket IT environments. Here, we describe some areas that midsize businesses should investigate to reduce networking costs. We highlight some actual cost savings from some of our midmarket clients.

Key Findings

- Midsize businesses are reporting significant savings on network expenditures.
- Due to lack of time and resources, many midsize businesses don't know the status of vendor contracts and too often simply renew existing contracts without negotiating for better deals.

Recommendations

- Midsize businesses should make all telecom contracts competitive and be diligent about reviewing invoices.
- Ethernet solutions are becoming more available and often provide better bandwidth and costs. However, many Ethernet providers are smaller vendors. Therefore, midsize businesses must be cautious when choosing providers and should investigate the availability of locations as well as levels of service and support.

Upgrade WAN Links

Many midsize businesses continue to be intrigued by the cost savings associated with running their networks over an Internet backbone. Many Internet Protocol (IP) data services are just cheaper than legacy data services such as frame relay. At the same time, by merging their legacy access lines to IP, companies can eliminate the need for separate voice and data access lines, thus saving even more money. IP virtual private networks (VPNs) have proven viable for running noncritical applications; however, consideration should be made about running sensitive corporate applications on a shared public network. In those cases, midsize businesses should consider using a network with guaranteed service levels (for example, Multiprotocol Label Switching [MPLS]) for mission-critical traffic.

Some examples of actual cost savings from midmarket enterprises:

- A midmarket furniture company with multiple locations that include factories, showrooms and warehouses transitioned its WAN from frame relay to broadband VPNs. The company has cut its WAN costs by about 30% and has saved approximately \$125,000.
- A midsize county government entity recently migrated its frame relay network connections to DSL services, saving \$2,000 per year per site. Frame relay costs ranged between \$200 and \$600 per month per circuit, compared to the DSL costs of \$62 per month.

Make Networking Contracts Competitive

Simply put, the largest telecom providers are more expensive than most other providers. While they dominate about 60% of the fixed voice and data market in the U.S., it does not mean they are the best or most appropriate to use. Smaller telecom providers offer some very good services and competitive rates, and should be considered by midsize businesses. We have found that enterprises that just renew their contracts without getting quotes from other vendors do not get deals as good as enterprises that make their contracts competitive. The differential is often as high as 15%. However, enterprises should calculate the cost of the transition to determine whether they'll save money by switching providers. Even if midsize enterprises don't want to switch providers, they should go through a competitive bid to gain some of these savings.

Some examples of actual cost savings from midmarket companies:

- A company in the food services industry decided to negotiate with a few smaller telecom providers that were eager for its business. The focus was not just on local and long-distance services, but also on services such as voice over IP (VoIP) and fiber optics. The company decided to migrate some of its services to Paetec, a telecom provider in Rochester, New York. The initial migration to Paetec for local and long distance saved the company approximately \$30,000 annually. The company has also recognized additional savings by migrating from T1 circuits to fiber links. Fiber-based services can be exponentially cheaper than copper-based technologies. Therefore, we recommend that any companies that are in buildings that have fiber connected to them should migrate to fiber-based access once they reach a need for 10 Mbps or faster. It will be cheaper and typically more reliable than copper.
- A healthcare company was able to reduce its phone costs from \$45,000 to \$23,000 per month by making the renewal open to multiple telecom carriers.

Review Telecommunications Bills Regularly

Telecom bills for voice and data are often riddled with errors. We have found that it is not unusual for a company to overpay by up to 10% each month. The most common problems are circuits that have been disconnected, but continue to be billed, and invoices that do not reflect new, lower rates. Midsize businesses must manage telecom expenses, rather than continue to ignore issues and overpay bills.

There are two types of external service providers that will audit telecom services and bills. There is one class of providers that looks for billing errors on a one-time basis. These types of audits are usually based on a contingency fee of up to 50% of the errors fixed. The other type of provider, known as a telecom expense management (TEM) provider, consolidates and reviews bills on an ongoing basis. It also charges fees based on a percentage, usually around 5% to 15% of the total cost of the telecom services. These companies can help by consolidating the bills and providing ongoing vendor management that many midsize businesses can't support due to limited staff and skills.

For example, a midsize bank recently used a telecommunications consulting company to conduct an audit of all its telecommunication expenses. The engagement resulted in a savings of approximately \$30,000 annually. Some of the savings came from misbillings, in which the bank was getting charged for direct inward dialing lines as though they were POTS (plain old telephone service) lines. The consulting company also found circuits that had been canceled, but were still being billed, and phone lines that were no longer in use.

Migrate to VoIP

Traditional circuit-switched voice networks assign bandwidth of 64 Kbps for every voice circuit. So, with a typical T1 access line of 1.54 Mbps, the customer can have 24 voice circuits. By combining voice and data in an IP network, an enterprise can compress voice messages to as low as 8 Kbps and use whatever bandwidth is available at the time. Instead of needing separate T1 circuits for voice and data, enterprises can get by with only one, saving an average of \$250 per month. By handling internal voice calls over the data network, enterprises can also reduce their voice expenses by about 10% by just removing internal voice calls from the public switched telephone network. However, IP telephony changes the nature of traffic over established data networks, and midsize businesses must be diligent in performing a network assessment to ensure the network is capable of supporting the voice traffic without affecting established real-time traffic.

For example, a multisite midsize business deployed a VoIP system connected to its MPLS network. With free calls between sites, the least cost routing across the WAN, new rates for long distance and the elimination of more than 100 analog lines, the company has achieved a 40% reduction in telephone costs, which equates to about \$250,000 in savings per year. While we do not have details on the calling traffic patterns for this company, it is likely that a portion of these savings could have been recognized without the VoIP system deployment. The combination of the VoIP benefits, the declining cost of voice calls and the cancellation of dial-up lines that were no longer needed is most likely how it saved a significant portion of the \$250,000. This also shows how reviewing bills can save a lot of money.

Implement Efficient Remote Access

Many remote access strategies are still based on legacy dial-up access, yet as much as 90% of all remote access is now done through broadband access services. If a company were to centrally buy these broadband services and have them directly billed to the company, it could save an average of 60% off the one-off costs of each employee paying for remote access on the

road (for example, a Wi-Fi hot spot in an airport). Most companies have not subscribed to these types of aggregated remote access services because they have no idea how much they spend on remote access; these costs usually are buried within expense reports. The first step in controlling these costs is to track them.

The consolidation of wireless devices and contracts with wireless providers can save a minimum of 15% off of what individuals would pay by themselves. Buying in volume through a corporate plan can also save on the cost of handsets.

Some examples of actual cost savings from midmarket companies:

- A healthcare company discovered it was paying approximately \$6,500 for more than 300 legacy dial-up accounts that had been used in the past for remote access. During a recent audit, the company found that only five employees were still using this service. The company decided to deploy iPass as a remote access solution. The company has cited an improvement in remote user accessibility to the Internet through hot spots, hotels and airports, while also saving approximately \$48,000 per year.
- One company cited a savings of 30% per month, which resulted in a \$5,000 annual cost savings by consolidating its wireless business services for all cell phones and PDAs from various providers to a single wireless provider.

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