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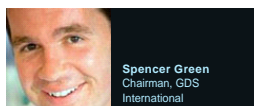
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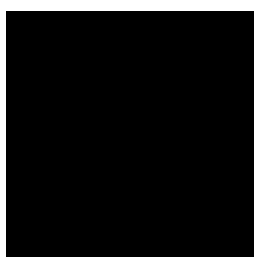
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## E-procurement for Communications: Complex Requirements, Unique Solution

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### Introduction

e-procurement solutions, or the use of technology to support all stages of the purchasing process, have been widely adopted and implemented by organizations worldwide. Benefits of using an automated procurement solution include decreased costs associated with the buying process, lower product or service costs, improved efficiency and internal processes to name just a few. Several companies provide generic e-procurement solutions with Ariba being the most well recognized name in this space.

While general purpose e-procurement may be an ideal solution for sourcing and purchasing commodity products, the unique -- and complex -- problems of procuring communications hardware and services requires a solution specifically designed for voice and data communications. In this article we will discuss the specific issues and challenges related to communications procurements and how they can be overcome with a purpose-built solution.

### The State of the Communications Industry

The communications market is witnessing a consistent and constant decrease in the price of voice and data services. Analysts are predicting that for the foreseeable future, wireless services will be down 15%, long-distance voice services will be down 20-25%, data services will be down 7-10%.

If communication services are reducing in cost, why are so many enterprises seeing their communications expenses remain steady or even increasing? The problem begins with the procurement cycle for communication services, but extends into the management of the inventory, invoices and usage. Specifically, some of these problems include:

- Long procurement cycles for new communications contracts
- Incorrect or ineffective implementation of new contracts
- Limited or no visibility into detailed communications usage
- Lack of an automated system to verify, reconcile, and pay communication invoices

The time to obtain some of the greatest savings begins with the procurement of services. Unfortunately, with carriers having financial problems and involved in mergers and acquisitions, ideal contracts may not be attainable. While negotiations with carriers may elicit a rock-bottom price, it may not bring with it high quality service levels or accurate implementation and billing.

### Commodity e-procurement Systems

Ariba, Procuri and other companies provide on-line reverse auctions that provide relatively seamless supply management. However, it is important to consider how their processes work and the types of commodities they work best for. A typical commodity procurement cycle may follow these steps:

1. Negotiate a contract
2. From that contract, build a set of products to order from different vendors
3. Order products
4. Receive products
5. Obtain delivery notification
6. Confirm quantities
7. Enter invoice
8. Verify against bill of lading and order
9. Aggregate invoices
10. Negotiate the next contract

This process works well for ordering paper or other consumables; an organization knows what needs to be bought, what color it is, the grade, size and weight. It can then run an auction, create the contract and then begin the process of ordering products. While online procurement is very straightforward with commodities, communications procurements are much more complex.

### Communications is Different

In order to get a worthwhile bid from carriers or service providers, an organization must specify the exact network connections, technologies, and locations, including the volumes of consumption expected. It is critical to have an understanding how those interconnected and dynamic systems and technologies are priced according to today's market conditions before the negotiation even begins.

Another important consideration is that service providers (carriers) must be evaluated for their ability to meet an organization's specific service level requirements, as well as how they can support specific geographic locations. These criteria can not easily be handled within a general purpose procurement system which has been built around a commodity and single-purchase structure.

## Capturing the Opportunity

Prior to beginning the procurement process for communications, an organization must understand, in great detail, the locations and services that will be put out to bid. One of the biggest problems that most companies have is that they may understand their general or bottom line communications costs, but do not have the detail necessary to specify spend or usage/consumption details on circuits or services.

An organization must be able to provide that information so that service providers or carriers can make an accurate bid. This type of information resides in monthly bills which for many large organizations involves mountains of paper invoices. Many carriers do provide this billing data on CDs or via electronic links which can expedite the data collection process. Additional detail information about system configurations is often found in spreadsheets or other locally stored documents if automated systems are not already in place to maintain this information.

The data collection process itself may involve days or months of work just to understand "what is out there and how much are we currently paying for it." Realizing the importance of having accurate inventory information as well as automated processes based on best practices to review and approve invoices on a monthly basis, many organizations have implemented Telecommunications Expense Management (TEM) solutions to provide accurate information to drive the e-procurement process.

## The Dreaded RFX Process

Once the information has been collected about the voice, wireless, data network, etc. has been collected, the next step is to issue a paper-based request for information/proposal (RFI/RFP).

This is traditionally a lengthy and labor intensive process that can span anywhere from 6-18 months. To attempt to make the process a little less unwieldy, companies may choose to solicit responses from only a limited number of suppliers or service providers which may preclude viable additional suppliers from even being considered. At this stage, many organizations choose to outsource the process to a consultant. While this relieves the organization of having to do a lot of the work, it still does not shorten the process.

Taking a year and a half to negotiate the most favorable contract still leaves an organization paying current rates for 17 months. Since market pricing for services continues to fall, it is in the service provider's best interest to lock-in a price and then delay the implementation for as long as possible.

## The "Alphabet Soup" of Communications

Modern communications systems are complex, and a detailed knowledge of how they work is a major requirement during procurement. A large portion of a communications procurement involves negotiating not only main line items but also all of the supporting equipment and services.

The alphabet soup of acronyms associated with communications makes the entire process even more unwieldy. For example, the following issues must often be negotiated:

SLAs - Service Level Agreements – the quality and performance requirements that the carrier or service provider is committing to

MARCs - Minimum Average Revenue Commitments – in return for a lower price, the customer must commit to using an amount of service for the term of the contract. If this is not met, charges can be billed at the end of the contract period.

On net/off net minutes – different charge levels for usage made on the network or if they are routed off the network.

An automated e-procurement solution must be able to handle these types of issues during the RFX creation process as well as during the actual auction.

In addition to the contract terms, communications systems have their own complex terminology that must be supported by procurement systems including VPNs, SONET, MPLS – to name just a few.

## Find the Market Price

True market pricing isn't necessarily what an organization's neighbor is paying. A good contract must be based on the market price, the exact price for an organization's specific communications environment. Only an electronic marketplace that is customized for communications procurements can determine an accurate price by determining what carriers are willing to provide - and at what price - in today's market.

## What's the Solution?

An e-procurement solution customized for the unique problems of communications is the solution to all of the above issues.

*What would it do and how would it function?*

An e-procurement solution for communications would automate the entire procurement process starting with the creation of the RFP. It would support the negotiation of the unique terms, conditions, and service level agreements (SLA's) while also ensuring that the best price based on market conditions is achieved.

Additionally, it should be able to provide an accurate – and very close to final – price of what the auction results.

customized for communications:

Traditional Process	Automated Process
<b>Non iterative</b> - Paper-based RFP is basically a "submit once and negotiate" bidding process. This gives the service provider only one chance to get it right.	<b>Iterative</b> - The dynamic and collaborative nature of an online reverse auction for communications allows a service provider to submit continual refinements in their bids.
<b>Punitive</b> - Most RFP responses are verbose and written in terms that favor the service provider. These terms are designed to force customers to comply, tying discounts to customer performance and long term contracts.	<b>Asymmetric</b> - A communications specific e-procurement enables an organization to drive its preferred specifications as to how the relationship should operate. The dynamics of the auction environment drive the service providers to embrace the organization's terms.
<b>Low-visibility</b> - Service providers are blind to others bidding. The traditional process hides who is proposing what features, terms, and price points. The buyer must make value judgments based on bid documents.	<b>High-visibility</b> - In an online auction customized for communications, each of the competitors can see where they rank in regards to price points and terms and can respond by lowering prices and improving terms.
<b>6-18 months</b> - Most RFP processes take months to complete, from document creation to contract signature. Huge amounts of customer personnel resources are drained from the organization with little actual productivity.	<b>5-10 weeks</b> - The buyer's requirements are specified, weighted, assessed, and reported in the auction, inherently driving acceptance of the terms. At completion, contract details are generated directly from the auction.

#### Does Such a Solution Exist?

Yes!

Avotus Corporation, the leading provider of telecommunications expense management (TEM) solutions, offers an alternative to commodity auctions with ICM e-Procurement™.

Avotus is bringing about a fundamental change in the way customers request, negotiate, and implement contracts for communication services. It is eliminating the hassle, reducing the cost and improving the controls organizations have over their communications spend. Utilizing Avotus ICM e-Procurement and its online WebAuction™, a customer is able to force carriers to compete against one another on price and service, on their terms.

Additionally, using its best-in-class database, Avotus is able to predict the outcome of an auction within a very small range of the final price. As a solution customized for communications procurements, Avotus e-Procurement has build a database that comprises 20 years of bid data collected from previous auctions, including information from auctions taking place today.

Avotus e-Procurement customers have found that their auctions take 95% less time than a paper RFX process, reducing the length from inception to conclusion from months to weeks. This time savings also carries the inherent financial benefit by enabling an organization to more quickly realize the resulting cost savings.

With the majority of the pricing, terms, conditions, and contract language contained in the auction itself, negotiating the last few items with the selected service provider takes only a fraction of the time. Avotus specialists can help negotiate the final contract.

e-Procurement is a major component of Avotus Intelligent Communications Management™, a unique TEM model for a single, actionable environment that enables any company to bring together decision-critical information about communications expenses and systems usage with electronic sourcing.

#### Customer Case Study

For a recent auction, Avotus helped a customer save nearly \$12 MM USD on their \$40MM USD annual communications spend. The customer negotiated contracts for over 1200 pieces of inventory for their North and South American operations.

During the RFP process, Avotus built 339 questions that covered everything from service level agreements to contract terms and conditions. Thirty-two global carriers were invited to participate. Over the next 90 days, the carriers submitted a total of 248 discrete bids using the automated Avotus e-Procurement solution.

#### About Avotus Corporation

Avotus is changing the way companies source, procure, and manage their communications services and assets. Combining technology, automation, and domain expertise, Avotus is redefining industry best practices. Avotus solutions eliminate the wasted time and hassle usually associated with contracting for new communications services and products and renegotiating existing or expiring agreements. Automated invoice processing, inventory management, comprehensive spend management and reporting enable Avotus customers to realize significant initial spend reduction and achieve ongoing visibility, cost containment, policy adherence, and process improvements without operational overhead or capital investment.

Avotus has a 20-year history of empowering companies of all sizes to gain lasting control over their complete worldwide communications environment through the effective management of their voice, mobile and wireless, data and converged communications spend.

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