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Think your phone bill's crazy?

Many overpay as bills flood offices in confusion

By Andrew Backover

For 6 months, Nelson Human Resource Solutions paid \$1,000 a month for 80 phone lines that weren't being used.

The staffing company also paid \$600 a month for empty voice-mail boxes.

Workers would switch offices and order new service. But they would not disconnect the old service, Nelson says. The Sonoma, Calif. firm only discovered the problem after hiring a consulting firm to check its telecommunications expenses.

Many companies like Nelson are throwing money away as bills skyrocket for telephone service, cellphones, wireless handhelds, Internet accounts and laptops connected to networks.

The cost of telecommunications now ranks in the top five expenses for most companies, up from about No. 10 a decade ago, companies and consultants say. Companies spend 5% to 35% more than they need to, experts say, because they pay for services they don't use. Or they fail to find the cheapest calling plans. They miss billing mistakes. And employees make calls they're not supposed to. As telecom costs rise, so does the potential for excessive expense.

"The waste is enormous," says Scott Schaefer, CEO of QuantumShift, which helps companies manage communication services. "Every single company that has over 100 employees is waking up to the fact that (communications) is one of their largest expenses . . . and the least understood."

The expense isn't minor. This year, U.S. businesses will spend an estimated \$403 billion on local and long-distance telephone service and equipment. That is up from \$274 billion in 1998, says the Telecommunications Industry Association. In 2004, the total will approach \$600 billion, or nearly twice the Pentagon's annual budget.

Financial services firms, where fast communication is key, spend an average of \$3,000 per year per employee -- about five times the amount of 15 years ago, says Bill Moore of consulting firm PricewaterhouseCoopers.

In a time of layoffs and belt tightening, more companies are eyeing telecom budgets, says analyst Maribel Dolinof of Forrester Research. And no item is too small. Investment banking firm Salomon Smith Barney recently suggested that its employees stop dialing 411, which costs about \$1, to get phone numbers. A handful of branch offices have banned it. Consultants who help companies rein in telecom expenses say most businesses waste money because of:

*** Billing mistakes.** Last year, refrigeration equipment and laundry services firm Mac-Gray upgraded its telecom network linking regional offices in 11 cities with its Cambridge, Mass., headquarters.

But when AT&T upgraded the service, it continued to bill Mac-Gray for the old service as well. Mac-Gray, with 500 employees and \$150 million in annual revenue, failed to catch the mistake for several months because the bill was so complicated, it says. The overcharge: \$75,000.

AT&T reimbursed Mac-Gray -- but only after Mac-Gray hired a consulting firm to handle its telecom services and to help with the dispute. AT&T won't comment on customers. But even it says billing disputes are more common as customers buy more services.

Businesses aren't the only losers. A billing error caused the county government of Lee County, Fla. to pay \$13,000 too much for long-distance service over 4 months this year, says telecom management firm Stonehouse Technologies. The money was refunded after the problem was found.

How often errors occur is disputed. Consulting firm Rand Associates says its business clients see billing mistakes on phone bills about 80% of the time.

Often, tax-exempt organizations, such as municipal agencies, are wrongly charged state or federal taxes, says Rand President Rudy Richardson.

Also, computer systems that turn telecom services on and off aren't always in sync with billing systems. So customers might get billed for several extra days of service, says John Gonsalves, vice president at technology consulting firm Adventis.

Phone companies dispute that billing mistakes occur so often. The Federal Communications Commission doesn't track billing errors. BellSouth, for one, says its bills contain mistakes less than 2% of the time.

Regardless, it is up to customers to catch billing errors. And few businesses go through bills line by line. The monthly stack of bills for Nelson Human Resource Solutions stood 8 inches high. "There was no one to analyze the paper," says Chief Financial Officer Deborah Mings. It now has QuantumShift handle its telecom operations.

*** Carelessness.** Companies and organizations cannot always blame phone companies. PricewaterhouseCoopers had one client that paid

\$80,000 in monthly service charges over 18 months for 36 cellphones sitting in a crate in a warehouse. "It's not that clients are lazy," says PWC's Moore. "It's simply impossible to stay on top of it."

Eisai Research Institute, a drug research firm in Andover, Mass., thought it was on top of it when it banned employees from calling 900 numbers frequently used as sex, astrology and gambling hotlines. But Eisai forgot to put the same block on its fax lines.

This year, in 1 month, an employee ran up a \$1,300 hotline tab. The company will say only that the worker wasn't calling a sex line.

"That's a perfect example of . . . (what) can slip through the cracks," says Eisai Treasurer Paul Drahnak. He expects Eisai to save \$100,000 a year by turning its telecom operations over to a management firm.

*** Inefficient contracts.** Because of an outdated long-distance contract, law firm Paul Hastings Janofsky & Walker wasted \$300,000 last year.

The Los Angeles-based firm was in the middle of a 5-year contract that charged 7.8 cents a minute. When the contract was signed, the firm saw it as a good deal. But long-distance prices have plummeted. Businesses now often get volume discounts in the 3-cent to 4-cent range. Finding the best deal, and anticipating market trends was beyond the 800-lawyer firm.

"We just don't have that capability," says Chief Information Officer Mary Odson.

Likewise, hotel operator Windsor Capital Group estimates it was paying \$100,000 too much each year on maintenance contracts for telecom and other technology equipment in its 24 hotels.

One California hotel, for instance, paid 40% more than a Colorado hotel did for a maintenance contract on telephone switch equipment, which allows guests to use the phones. The contract was negotiated by hotel managers, who aren't telecom experts.

"They are in the guest-services business," says Windsor Capital Vice President Sam Sansone. It has since hired outsourcing firm United Asset Coverage to handle its maintenance contracts.

Complicated contracts

Buying telephone service used to be simple. Before the breakup of AT&T in 1984, customers essentially bought local and long-distance service from one company.

But the splintering of AT&T led to hundreds of long-distance competitors, each clamoring for business customers with slightly different deals.

In 1996, when Congress mandated more competition in the local phone business, hundreds of tiny competitors started offering service. And wireless service, once a luxury, is now a staple. In fact, 51% of workers with cellphones say their companies pay at least part of the monthly tab, says research firm Telephia. Also, companies are paying to connect more employees to the Internet.

As telecom expenses have grown, companies have struggled to respond.

Most large firms have designated employees watching over telecom and computer systems. But in small firms, the chore often falls to

chief financial officers, who lack expertise. "Every company in the world can't afford to have an expert in house," says Eisai Research's Drahnak.

Also, telecom expenses can be hard to track. For example, Internet access charges might fall under the budget of a company's information technology department. But cellphones, often purchased by employees and then expensed, might fall under travel budgets.

Consolidating bills can be hard, too. Law firm Paul Hastings has seven U.S. offices. It buys telecom services from 24 companies. The bills came in so often, at different times of the month, that they sometimes got lost or sat on desks until they were late, Odson says.

Getting help

Last year, Odson handed management of the \$1.8 million domestic telecom budget to QuantumShift. Odson expects to save \$700,000 this year. One big help? QuantumShift found it a better long-distance contract.

QuantumShift's software also searches for billing errors and unused lines. It consolidates bills, which saves time, and lets Odson more easily order new services. And it lets her analyze expenses to a single phone number.

Even after paying for QuantumShift's services, Odson expects telecom costs to be about 26% less this year.

Companies that help others cut telecom costs are doing a brisk business. Privately held QuantumShift had 116 customers as of June, up from 45 the year before. It posted a 300% year-over-year revenue gain in its first fiscal quarter. Stonehouse Technologies recently added 20 employees, bringing its total to 60. Veramark Technologies says its outsourcing revenue has grown 30% in the past 10 months.

Phone firms, too, are trying to cash in. AT&T's consulting arm recently redesigned a customer-service system for First Union. It will save the bank \$38 million over 5 years, says AT&T executive Randy Johnston. That's because First Union's customer service agents will have faster access to more information, which means it'll take less time to handle customer calls.

Just as regular consumers can save money on phone costs by shopping for calling plans that fit their needs and checking bills for errors, companies can save money by taking simple steps:

* When billing errors occur, report them to the phone companies' customer service team -- not the sales team, says AT&T.

* Make sure disputes are noted in computer systems. That way, a response is likely to be faster. Also, customers won't have their service turned off because they didn't pay disputed bills.

* After ordering new service, ask for a detailed explanation of the bill.

Companies that don't pay attention could find themselves in the same place as Mac-Gray Chief Financial Officer Michael Shea.

"You wake up some morning and say, 'Holy cow. How am I spending \$1 million on communications,' . . . and no one knows."