More and more enterprises are being affected by poor economic conditions, and budgets are starting to get slashed. If the CFO walks into your office and asks you to cut IT spending, look to these eight tactics to slash network costs.
Executive Summary

The average enterprise spends 11% of IT budget on network communications services. Enterprises also allocate 11% of overall staff resources to network management and administration. When the axe falls on IT budgets, the capital, operational, and administrative costs allocated to networks and communications will undoubtedly be scrutinized.

This research note will focus on the following:

» Eight options to reduce network costs.
» The key areas on which to focus.

Hard to balance cost reductions with high service levels? Absolutely. Impossible to maintain high network service levels in a cost cutting environment? Absolutely not.
Optimization Point

When times are good, most enterprise IT organizations deliver a level of network services that at least meets, and often exceeds, what the business demands. When the economy tanks and cost reduction exercises are undertaken, there is a good chance that the network services group can deliver cost savings without material impact on network performance.

The objective of this research note is to identify cost reduction opportunities that the network and communications group can undertake while still delivering an acceptable level of network services to the business. Not every organization will be able to take advantage of every cost cutting strategy outlined, but most will be able to take advantage of enough to significantly reduce costs. Consider the options that make the most sense, and implement those that can have the most significant impact on costs with the least impact on service delivery.

Key Considerations

1. Replace Expensive WAN and Internet Links

Most companies use expensive T1 links for WAN connectivity or Internet access. While T1s offer dedicated bandwidth and superior service level guarantees, they cost as much as 500% more than other broadband alternatives that often deliver more bandwidth. For instance, while a T1 (1.544 Mbps symmetrical) will likely cost approximately $500, an ADSL connection (3-10 Mbps download, 400Kbps-1Mbps upload) can typically be had for $100 or less. True, the ADSL connection will not have the same service level agreement (SLA) as the T1, but it is likely reliable enough for most scenarios, and if it is not dual homing can improve reliability to T1 quality or better.

In order to know how much capacity is really necessary, network and telephony traffic should be monitored. Using a Network Management System (NMS) to monitor network traffic can quickly identify areas of over-capacity. It may be possible to reduce the capacity of WAN, Internet, and telephony connections, reducing costs significantly. For more information, refer to the Info-Tech Advisor research note “Slash Branch Office WAN Costs: Dump the T1s.”

2. Buy Hardware on the Secondary Market

The secondary market for network equipment has grown rapidly over the past few years. In many cases, this represents a considerable cost saving opportunity, but the growth of the market has also introduced undesirable elements that present significant risk. Identifying honest, reliable sources for refurbished network equipment is the essential first step to sourcing from the secondary market.
Once successful partnerships have been developed with sound sources, the risks associated with purchasing refurbished network equipment virtually disappear.

Used and refurbished equipment is fair game, and is typically priced 50-90% below the list price of new gear. Whether used or refurbished, the equipment should come with a warranty – 90 days exchange is common, and extended warranties of up to five years are available for a price. The bottom line is that much of the network infrastructure currently deployed in most enterprises is available on the secondary market at a significantly reduced price. For more details, refer to the ITA Premium research note, “Risks and Rewards of Secondary Market Network Gear” and the Info-Tech Advisor research note, “Save Money: Buy Previously Enjoyed Network Equipment.”

3. Reduce or Eliminate Support and Maintenance Costs

Most enterprises pay for ongoing maintenance and support costs for network hardware. For example, Cisco charges for annual support at a rate of 5-15%. This may seem reasonable for access to software upgrades (i.e. IOS upgrades) and Technical Assistance Center (TAC) support, but with closer inspection of the numbers, enterprises may end up paying almost twice for the network infrastructure over five years of ownership.

What if the network group purchased cold standby hardware to replace defective equipment, and opted for a pay-per-use technical assistance option? While the pay-per-use option may seem to be more expensive on the surface (i.e. $200/hour), it is likely much less expensive in the long run given usage. In most cases, annual support contracts can be eliminated with little or no impact on network service delivery.

4. Stop Issuing Mobile Phones

Organizations issuing workers company-owned cellular devices have been forced to develop cost containment strategies. Companies have developed formal policies documenting appropriate usage, cost review, and standards for plans and equipment. While these policies may have reduced spending, they also transferred significant management and monitoring tasks to the IT and Finance departments.

Nearly 80% of workers in North America own a personal cell phone supported by a low-cost rate plan. This means that issuing workers corporate cell phones is a costly and unnecessary employment perk. Reimbursing employees for the actual minutes used to conduct business on behalf of the company is a practice gaining traction with small and mid-sized enterprises (SMEs). Modify the organization’s default cell phone policy from issuance to reimbursement to reduce direct costs by as much as 76%. For more details, refer to the Info-Tech Advisor research notes, “Slash Cell Phone Costs: Stop Issuing Phones” and “Five Strategies for Cutting Cellular Costs,” and the ITA Premium research note, “Three Methods to Reduce the Cost of Mobile Services.”
5. **Change International Mobile Roaming Policy**

As enterprises increasingly do business around the world, Info-Tech speaks to many clients about selecting carriers and options to reduce skyrocketing international mobile bills. There are ways to reduce the costs of roaming from several dollars per minute to pennies per minute. Enterprises looking to reduce mobility costs for roaming employees should start the search with carriers in the home country. Not all pricing plans are the same, and up to 33% savings can be achieved by simply selecting the appropriate plan with the current wireless carrier.

Other options for cost savings include purchasing SIM cards with local carriers and using rental phones. Using a SIM card from a local carrier and buying prepaid airtime minutes can typically slash the cost of a call made or received abroad to less than $0.25 a minute compared to up to $4.00 a minute while roaming. Rental phones with prepaid minutes are widely available and can save the enterprise roaming costs as well. Finally, call-back services offer an option to reduce long distance costs while abroad. For further guidance, refer to the ITA Premium research notes, “Tailored International Mobile Strategies Hem Costs” and “Roam the World with Cost Effective Mobile Connectivity.”

6. **Audit Telecom/Mobile Service Costs**

Many enterprises are being overcharged on their telecom bills. It’s estimated that 80% of corporate telecom bills contain financial errors, resulting in ongoing overcharges of 5-35%. Regularly audit the enterprise’s telecom bills for a quick financial win that puts money back into corporate coffers.

After payroll, telecom costs are the second largest controllable expense for most enterprises, yet few organizations conduct effective and regular telecom bill auditing. On the carrier side, rampant mistakes in data entry occur daily. As a result, monthly telecom bills are riddled with errors and overcharges. Unfortunately, it’s up to IT to catch billing discrepancies as they occur. Common overcharge errors include:

- Paying for unused or disconnected services, phone/frame relay/T1 lines, and voice mail.
- Duplicate charges, or being charged for calls made by another telecom customer.
- Paying for maintenance contracts no longer in use.
- Paying sales tax when the company is tax-exempt.
- Charges for unsanctioned calls/Internet access.

Perform an audit to save as much as 35% on telecom expenses. For more information, refer to the Info-Tech Advisor research note, “Auditing Telecom Bills Yields Big Returns.”
7. Renegotiate Telecom/Mobile Service Contracts

Selecting the right telecom provider is a function of a combination of the required services with the best support at the most attractive price. If any of these important components are missing or not optimal, the cost to the enterprise can be significant. Focus on negotiating the best contract after the best carrier has been identified.

If contracts are coming up for renewal, it is the best time to negotiate better pricing in the short term. Depending on the mix of services, spending commitment, and length of contract, enterprises can expect to reduce costs by up to 10% by negotiating lower rates. In addition, renegotiated contracts should include a provision for annual or semi-annual price reviews to ensure discount levels remain consistent throughout the contract. For more detailed information, refer to the ITA Premium research notes “Leverage Big Company Tactics when Negotiating with Telecom Vendors,” “Telecom Contracts: Auto-Renewal Can Dent Your Wallet,” and “Renegotiating Telecom Contracts: Timing Is Everything.”

8. Outsource Non-Core Competencies

Does the network service delivery group do network cabling? Does it really need to have expertise in that area? The likely answer to the first question is that there is someone internally that does network cabling work; with few exceptions, the answer to the second question is that outsourcing cabling work to an experienced and capable network cabling company can cost much less than it costs to do internally.

While cabling is used as an example, this could apply to LAN or WAN management; network monitoring; Moves, Adds, and Changes (MACs); or any variety of activities that are not, and should not be, core-competencies. It’s not nice to eliminate positions, but it may be necessary during a cost cutting exercise. There is a very good chance that many activities currently performed in-house can be outsourced with little impact on service delivery, and that some internal positions could be eliminated to save the company tens or hundreds of thousands of dollars a year. For more information, refer to the ITA Premium research notes, “Reduce the Burden: Outsource Network Monitoring” and “How to Right-Size Your Network Team.”

Improvement & Optimization

There are eight network cost cutting options outlined in this research note, but there are three things every enterprise should take away, including:

1. **Know what is used.** Now is not the time to pay for excess capacity. Use an NMS and other available telephony reporting functions to identify what is needed and when. Don’t pay for capacity you don’t need.
2. **Get rid of the dead weight.** Get rid of the services that aren’t used or needed. Paying for unnecessary services, people, and support is a waste of money. Lose the dead weight now and stop paying for services that don’t do anything for the enterprise.

3. **Focus on core skills and competencies.** So many enterprises dabble in network activities that they shouldn’t be bothered with. If it is of value to the business and needs to be handled in-house, then get the right skills, otherwise let someone else do it (cheaper).

**Bottom Line**

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