



Did you hire a “fox” to manage your telecom expenses?

There is a direct conflict of interest when telecommunications expense management (TEM) providers accept agency fees from carriers. This is equivalent to the old adage of the fox watching the hen house. The minute a TEM provider accepts agency fees, they become the fox and the telecom services and devices (wireline and wireless) become the hens.

Telecom carriers, for many years, have paid consulting firms, resellers and co-sellers agency fees for placing orders for services with them as opposed to other carriers. This practice continues and does make sense for those working on behalf of the carriers.

All carriers have alternate channel sales (agents) and also offer wholesale Mobile Virtual Network Operator (MVNO – wireless reseller) opportunities. The typical agent compensations for wireless devices run between \$250 and \$350 per activation. Most carriers also offer a nominal residual of 2-3% of the monthly bill along with a co-op marketing fund of around \$25 per activation. So, if an agent sold a client a Blackberry with service, they could generate up to \$350 commission, 3% of the recurring monthly bill, plus another \$25.

If they had a client they were already servicing in other areas, they might be "generous" and give them the Blackberry for free. They would then make the 3% plus \$25 - but they look really good in the eyes of the client. Some agents use their wireless position as a value-add, but are actually leveraging their client relationship. Example: Take a client purchasing EV-DO air cards in very high volumes, to prepare for a corporate mass rollout, where the agent was able to negotiate free air cards with as high as 15% return on the recurring monthly service of \$59.95 for unlimited data use - $20,000 \times 15\% \times \$59.95 =$ **\$179,850 per month in gross revenue**. And, since it is data only, there is no chance of fraud or bad debt, not to mention billed one month in advance. Not bad business. You can see where a TEM can be tempted to cross the conflict line in pursuit of significant profits.

If you extend this same model out to TEM firms that are contracted by end user clients to manage the carriers and daily provisioning, then agency fees from the carriers is clearly a conflict of interest.

Take for example a TEM provider that accepts agency fees from carriers and hired by a company to manage their wireless services and devices. This would include ordering devices, canceling unused devices, performing optimization to ensure users are on the correct plans, cleaning up and managing the inventory, and overseeing the carrier SLA's. If the TEM provider is being paid only by the client then it meets the normal checks and balances. The TEM provider is fully responsible and has the incentive to do a good job for the client by following the client's policies and guidelines.

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If the TEM provider, on the other hand, is being paid by the client and also receiving agency fees from the carrier for each order placed and the ongoing billing, then the loyalty becomes skewed. The more devices the TEM orders on the client's behalf, the more revenue they make from the carrier and in some cases from the client (depending on the structure of the deal with the client). The TEM provider also has no incentive to clean up the inventory and eliminate any devices because each device that is cancelled cuts back on the TEM provider's revenue. Also, what do you think happens if the TEM gets better deals from carriers other than the client's preferred or contracted carriers. Since they are responsible for managing the services, the TEM provider could steer the user group towards non-preferred carriers for their own benefit.

The client may have a process in place for requesting devices that requires certain approvals. Since the client has some good checks and balances on the approval process, the TEM can only order devices with the necessary approval, so they would have to blatantly bypass the rules to order more devices than necessary. But let's look at the inventory management and cancellation end. When someone requests a replacement for a lost or broken device or an upgrade, it does not require the same level of approval because the users already have approval for the devices. The TEM provider orders the new device but doesn't cancel the old device. The excuse the TEM provider has is that the user never returned the old device so it was never removed from the inventory record. The billing continues.

While this seems like such a clear conflict of interest, you would think that it would only happen on rare occasion. Because it is such an obvious conflict most clients don't even bother to ask their providers if they accept agency fees from carriers. The TEM providers in turn, will not bring it up for obvious reasons. Some may go as far as setting up separate companies to accept the fees to give the false appearance of no conflict. TEM clients may be surprised to find out that in a recent, non-scientific survey, conducted by TEMA (<http://www.temassociation.org/survey/>), out of 29 responses from various types of providers in the TEM industry 65% responded that TEM providers that accept agency fees from carriers should be allowed to be members of TEMA. Based on the survey results a new, independent organization named I-TEM (<http://www.i-temassociation.org>) was formed. The main charter for I-TEM is a commitment from TEM providers that they will not accept any form of agency fees from carriers

When a potential client is evaluating TEM providers, it is important to properly weigh any difference in price. TEM providers that accept agency fees are in a position to offer what seems to be a lower rate but the end result can be a much higher cost to the client. If the TEM provider has an agency agreement with the carriers, there is a built-in incentive to order more devices and to avoid canceling any devices that should be cancelled. In some cases the conflict behavior is blatant and in other cases more subtle.

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