Wireless TEM: Why Managing Mobile Phones Is Different

Robert Lee Harris

Cellular pricing plans and devices change fast. Are you getting the best?

Just this year, I have become convinced that cellular phone services bring unique challenges to the world of telecom expense management (TEM). Coming to this conclusion was a gradual process, and I still remember thinking that cell phone bills and rate plans could just be lumped in with all the other contracted services and circuits that traditional TEM packages help to manage. Oh, sure, maybe the PC Support group managed the cellular devices, while the Network or Telecom Group managed the contracts for services, but those separate silos happen all the time in large organizations. That couldn’t be the only reason that a customer would select two separate expense management tools.

At the same time, I knew cellular expenses were significant, and I already suspected that mobile devices would replace PBX station hardware in the foreseeable future. These devices are gaining more features and ease of use all the time, as I wrote earlier this year (see BCR, March 2007, pp. 44–49).

It was also obvious to me that carriers and enterprise customers had begun pursuing in-building cellular coverage, via picocells and femtocells, to the extent that these options look to displace the early lead that 802.11 wireless data may have gotten in adding voice over Wi-Fi, or Vo-Fi (also see this issue pp. 22–27). Looking ahead, as in-building cellular becomes an alternative for more enterprises, carriers may decide to offer fixed monthly costs for in-building services. In the meantime, cellular usage is clearly growing rather than diminishing, and so are the costs to provide it.

In retrospect, I think I overlooked the uniqueness of wireless TEM partly because I had my radar so closely focused on wireline TEM products and services. These keep getting better and better and I figured they could handle any special challenges that a wireless invoice might present. It seemed to me there was an applicable wireline TEM product component for every wireless challenge out there. But I was overlooking the unique issues associated with the management of mobile devices and with the cost management of cellular services (Table 1).

I was finally convinced there must be more to wireless expense management than I had thought when I noticed all the wireline TEM vendors merging or partnering with wireless TEM providers. For example, in March 2007, Tangoe merged with TRAQ Wireless, a well-tenured provider of wireless TEM. In July 2007, MGB Expense Management partnered with mindWireless, and in October 2007, Rivermine announced a merger with its long-time partner, BBR Wireless Management. Another wireless TEM provider, MobilSense, partners with many wireline TEM and call accounting vendors, including Telesoft.

To find out what the TEM vendors are trying to gain when they partner with the wireless TEM providers, I reviewed case studies on wireless cost savings and optimization methods and spoke to colleagues and telecom managers about their unique challenges in managing wireless costs. I then spent some time talking to Doug Stevens, the sales VP of wireless TEM provider MobilSense, and John Shea, the chief marketing officer of Rivermine.

I found there are two main ways in which wireless and wireline TEM are very different: volume commitment issues and device management. Let’s look a little closer at each, and then at some of the other concerns that come uniquely with wireless TEM (also see this issue, pp. 64–63).

**Pricey Cellular Rate Pools**

The difference in how cellular services are billed compared to wireline voice services is not trivial. With traditional wireline long distance services, the customer determines the minimum volume of minutes they will use over an entire year (known as the Minimum Annual Commitment or MAC),
then negotiates a per-minute rate and commits to spend slightly less than what they expect. For example, a company might commit to pay a minimum of $60,000 annually, expecting to spend about $70,000, but knowing that any minutes they use will still cost whatever the agreed-upon per-minute rate is.

In contrast, wireless revenue commitments are based on monthly usage for either a single cell phone or for a rate “pool,” a number of minutes shared by a group of cell phones. Unlike the annual wireline contracts, wireless pricing plans can change as often as every few months and without notice to the subscribers. Month-by-month usage fluctuates more than usage that is averaged over an entire year, and wireless providers charge a significantly higher per-minute rate for minutes beyond the monthly usage allowance.

Although enterprise telecom managers would never pay AT&T, Verizon or Sprint five times as much per minute for wireline calls once the MAC was met, this is a common pricing policy for these same three providers’ wireless invoices, and customers have accepted it. Recently, however, businesses have begun to realize how expensive these extra minutes can be, as well as how expensive it can be, on a per-minute basis, not to use all the contracted minutes. For example, suppose a business customer negotiates a plan that offers 700 minutes for $49.99 per month, which is a middle-of-the-road deal in today’s market:

At first glance it would appear that the effective rate is just over 7 cents per minute, but in order to actually get that rate the user has to use exactly 700 daytime minutes; no more, no less.

If the phone is used for only 350 minutes one month, the effective rate doubles to more than 14 cents per minute.

If the phone is used for 800 minutes the following month, and the extra minutes are billed at 40 cents per minute (again, a common charge), the effective rate is more than 11 cents per minute.

Pooling usage for multiple devices helps somewhat, but it does not alleviate the necessity of over-committing on minutes to avoid paying the terrible 40 cent per-minute overage charges. In response to this frustrating problem, businesses have begun requesting flat-rate plans with annual spend commitments that are more like the wireline plans—for example a commitment to spend $200,000 per year with every call billed at 9 cents per minute. Carriers will often accede to these kinds of arrangements, but usually they will withdraw other cost-saving plan features, such as free nights and weekends or free mobile-to-mobile calls. The net result is often still a rate that is much higher than advertised.

**Plan Management Is A Big Deal**

A well-negotiated contract is always a good idea, but another way to help avoid undershooting or overshooting your wireless pricing plan is to use what the wireless TEM providers call “optimization.” This is one of the main features attracting the wireline TEM providers to their wireless brethren, and one of the main reasons you might be interested in looking more closely at wireless TEM for your own organization.

Rate optimization systems work by electronically collecting (from the carrier) all of the invoices that are under the contract, and then calculating the effective per-minute cost. The rate optimizer

<table>
<thead>
<tr>
<th>Wireline TEM Issues</th>
<th>Similar Issues In Wireless TEM</th>
<th>Unique Issues to Wireless TEM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate Benchmarking:  Keeping track of best market rates</td>
<td>Plan management: Using the best plan for your usage pattern</td>
<td>Plans change frequently and carriers don’t let you know</td>
</tr>
<tr>
<td>One-year term and volume commitments</td>
<td>Similar, but much shorter terms and higher prices</td>
<td>One-month pricing, with substantially higher per-minute prices for overruns</td>
</tr>
<tr>
<td>Cramming: Keeping extra Telco charges off your phone bill</td>
<td>Features: Controlling user activation of SMS, ringtones and other features</td>
<td>Individuals can order new features right over the cell phone</td>
</tr>
<tr>
<td>Restrictions: Preventing third-party or casual LD billing on your invoices</td>
<td>Restrictions: Preventing international calls, data usage</td>
<td>Deciding whether to reimburse employees for their usage, or run a corporate liable plan</td>
</tr>
<tr>
<td>Contract Sub-commitments: Making sure various usage revenue commitments are met (on voice, data, toll-free, etc.)</td>
<td>Pool Management: Making sure users are in the right minute pool</td>
<td>Keeping up-to-date on frequently changing options and pricing plans</td>
</tr>
<tr>
<td>Contract End Dates: Tracking the dates that various service contracts are due to expire</td>
<td>Upgrade Eligibility: Keeping track of when various mobile devices can be upgraded</td>
<td>Users often need help upgrading and synchronizing new mobile devices</td>
</tr>
<tr>
<td>Unused circuits and services: Terminating and recovering charges for unused individual lines and calling cards</td>
<td>Unreturned Handsets: Terminating and recovering charges for cell phones that are lost or taken by former employees</td>
<td>Telecom managers have much less visibility and control over mobile handsets</td>
</tr>
</tbody>
</table>

Businesses have begun requesting flat-rate cellular plans with annual spend commitments
With employee-liable setups, the IT department gets stuck supporting a hodgepodge of devices

...
ple email accounts or applications on the device, or they may swap out the phone themselves and leave proprietary information on the older device.

Another lesson that IT should have learned from the wireline world is that corporate telephone numbers should be considered a company asset. Many businesses spend large sums of money porting, preserving or forwarding published phone numbers during office relocations. Yet their best salespeople may have their own cell phones. If these people leave the company, they take their phone numbers with them—numbers that could be known to years’ worth of customer contacts and leads. If the company owns the phone numbers, these numbers can be reassigned to new salespeople.

These are some of the reasons many companies are moving away from employee-liable plans to take control of the whole wireless cost and assets. But there is an accounting issue that could make corporate-liable plans less attractive.

**IRS Compliance Issues—Something To Think About**

Since 1989, the IRS has considered cell phones to be in the category of “listed property,” that is, items which people can use as easily for personal as for business purposes. An IRS Fact Sheet explains, “‘Listed property’ includes items obtained for use in a business but designated by the Internal Revenue Code as lending themselves easily to personal use. This includes automobiles, computers, and entertainment or recreation-related items. In 1989, cellular telephones were added to this category. Although the use of these phones is much more widespread and economical today, they remain listed property and are subject to these restrictions.”

The IRS is in essence acknowledging that cellular costs have gotten cheaper, so maybe companies don’t care about some personal usage on a company owned phone, but the law still excludes this usage as a deductible expense. In fact, personal calls on a company owned phone are actually supposed to be reported as employee income.

According to telecommunications attorney Martha Buyer, “If the employee owns the phone and gets reimbursed for business usage, that’s a corporate expense which the company will likely deduct. If it’s the company’s phone, then the employee’s personal usage, as well as a portion of the value of the phone itself can be classified as income to the employee and will likely show up on the employee’s W-2.”

This factor alone could keep some organizations away from corporate-liable cell phone deals, since it is fairly easy to reimburse employees for usage that they submit on expense accounts. Doug Stevens of MobilSense said he had talked to companies that have been audited and, “they have had significant portions of that spend disallowed as an exemption.” He noted that MobilSense’s MobilSentry service has a directory function that automates the process of separating business from personal calls. John Shea of Rivermine said the issue “does tend to surface,” and as of November, the Rivermine/BBR solution will add the ability to differentiate business and personal calls on a wireless bill.

I also asked some of my colleagues from the Society of Telecommunications Consultants if they knew of clients or other businesses that had actually been audited by the IRS for this. While most were aware of the issue and had made sure their clients were aware, none knew of actual IRS audit instances. Still, the consensus is that it is a good idea to be ready for this issue. “Nothing has happened yet” is never a good reason to be out of compliance with tax regulations! Strict compliance entails having a written policy about personal cell phone use, separating personal from business calls, and reporting personal cell expenses as employee income or having the employee reimburse the company for these expenses.

Given these conflicting trends, it’s not surprising that some busy professionals are carrying around two devices, one from the company and one of their own.

**Conclusion**

Eventually wireless costs will be folded into an overall TEM strategy, but for now the issues remain different from wireline charges. Billing and device issues alone make this a different field of expertise, and industry expertise is an important characteristic of your TEM partner, whether that partner provides managed services or software.

I think companies like Rivermine, Tangoe, Telesoft and MGB are making a good call by merging or aligning themselves with the providers of wireless TEM solutions. Fixed/mobile convergence, once perfected, will make wireless devices much more common, even in the office, as a replacement to the desktop telephone. They will also lead to new billing complexities. Already having a unified cost management solution that handles both wireless and wireline will be very advantageous.

---

**Companies Mentioned In This Article**

- BBR Wireless Management (bbrw.com)
- MBG Expense Management (www.mbg-inc.com)
- mind Wireless (www.mindwireless.com)
- MobilSense (www.mobilsense.com)
- Rivermine (www.rivermine.com)
- Tangoe (www.tangoe.com)
- Telesoft Corp. (www.telesoft.com)
- TRAQ wireless (www.traq.com)