Breaking the Mobile “Tech Fund’ Habit

Utelize Mobile Best Practice Guide

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Introduction

Mobile networks, devices and budgets have always been challenging for businesses to control and support. Mobile devices are with their users all the time, they support both business and personal life through applications and the internet; and commonly they sit outside of secure, "ring-fenced" corporate IT networks. To compound matters further, they're more prone to loss and damage than all other forms of IT hardware and they are easy to resell. Managing mobile IT is a complex business.

Unlike most IT expenditure, mobile costs are also highly sensitive to end user behaviour. Controlling that behaviour whilst also ensuring employees remain productive is both difficult to achieve and resource intensive. The way we use our mobile phones also varies dramatically from user to user, and with the advent of smartphones it's extremely difficult to draw clear boundaries between personal and business use. The arrival of 5G services in 2019/20 will only serve to increase this challenge, forcing businesses to work hard to find the right balance between user productivity and usage controls. Smartphones also bring more technical complexity, and with this, new security and rapidly increasing support challenges – none of which are going to disappear anytime soon.

At Utelize, we are seeing a convergence of four significant mobile challenges that are already having a growing impact on mid-market and enterprise businesses. Challenges that are set to dramatically increase mobile administration and costs for businesses that fail to implement a proactive and strategic approach to mobile network, device and security management:

Challenge 1: Increasing mobile device costs - that can no longer be subsidised by network "tech funds"

Challenge 2: Increasing mobile data consumption - driving greater management challenges and increased airtime costs with more frequent "bill shock" both domestically and abroad

Challenge 3: BYOD programs failing to deliver expected savings – driven by higher IT support costs coupled with lower BYOD adoption rates and device purchase savings than expected

Challenge 4: Increasing mobile security, data leakage, GDPR and compliance risks - leading to increased pressure to issue corporate devices, as well as increased security and support costs, especially in regulated markets and professional services firms

At Utelize our Managed Mobile Services are built on our tried and tested mobile management methodology that spans mobile network, device administration and mobile security. We openly share our methodology in our best practice guides, where we offer a detailed look at the causes and impact of these converging challenges on mobile IT administration and budgets. In our plain-speaking guides, you'll also find clear insights and practical approaches that your business can implement today to regain control and release significant budget that you can reinvest in mobile working and security.

In this guide we specifically look at the challenges faced by businesses when effectively purchasing mobile services and devices and why "tech funds" are a root cause of mobile overspending.

We hope that you find this guide of interest and value with your own mobile strategy and management. Follow us on LinkedIn or Twitter or visit our website for more best practice guides and free resources on managing mobile services, security and devices.

What’s wrong with Mobile “Tech Funds”?

If your business is like most large UK based businesses, then you probably received a mobile “tech fund” as part of your last mobile network contract. The tech fund allows your business to pay for your mobile devices out of a pre-agreed pool of money, and in some instances these funds can also be used to fund other services from the network. Until a few years ago, most IT teams just about balanced their mobile device budget through a combination of sweating mobile assets, by introducing “Bring Your Own Device” (BYOD) and by avoiding large scale smartphone roll outs.

For most IT decision makers, those days are over; and the impact of increasing mobile data consumption, more expensive smartphones and implementing effective device security is now a growing and visible challenge. A challenge that is rapidly driving up mobile costs and can no longer be “hidden” as part of mobile network charges. To address this challenge, Finance and IT teams are going to need to work together with a strategic plan for mobile management and procurement, especially as most businesses are once again looking to cut costs sharply.

What’s more, as the real challenges of administering and securing personal devices for business use continue to grow, and as the forecasted cost benefits associated with BYOD fail to materialise, more and more large and regulated businesses are going to need to (once again), expand their UK corporate device programs.

If you’re struggling with mobile budgets, then you need a plan.

The good news is that you almost certainly have plenty of opportunities and hidden costs within your existing mobile budget and contracts that can be exposed to help bring your costs back under control. Our wide range of Mobile Best Practice Guides (see the end of this guide for more details) can help you to quickly identify and release these excess costs. Helping you to balance short term cost challenges whilst keeping up with longer term business demand for new technology and services.

However; before we get into the detail of these opportunities, it’s important to understand where and why your business has been overspending. That means taking time to understand why mobile “tech funds” are one of the major root causes of overspending on mobiles services. Let’s explore some truths about tech funds in more detail.

Truth #1 – Mobile Tech Funds prevent effective mobile management and lead to overspending

Technology funds are created when mobile networks add “extra” costs on top of your underlying mobile network charges, and then refund an element of this extra cost to you in the form of the “tech fund”. Unlike cash, tech funds can normally only be used to buy devices, usually at “list price” from the mobile network’s own device catalogue, or in some cases other “list price” new services.

It’s a bit like buying a department store gift voucher – you pay list price for the privilege of being able to spend your money exclusively in one store by a fixed end date; and if you don’t, you lose your money. This is not an effective mechanism for purchasing business IT assets.

Many decision makers simply assume that the “tech fund” is a necessary component of the mobile contract, as it’s always been there and usually no alternatives are presented at renewal time (unless specifically asked for). The mobile networks have a vested interest in maintaining this false narrative; and by keeping device purchasing away from finance and procurement teams, they can create significant hidden profits over the term of your agreement. As we’ll explore later, “tech funds” often offer little value to large businesses and the sooner you remove them from your contracts, the better your chances of controlling your mobile device and network expenditure.

Truth #2 – Tech funds tie customers into purchasing locked devices from their mobile provider, often at uncompetitive prices and remove competition from purchasing

By accepting a "tech fund" your business is inadvertently tying itself into purchasing devices from your mobile network for the term of the agreement, or at minimum until the tech fund runs out. However, few businesses complete any detailed analysis of the real impact of this decision when comparing vendors and proposals for their network services.

For instance, by reviewing how devices will be purchased when the "tech fund" runs out; or establishing the premium being applied to the network charges in return for the tech fund; or indeed, whether the mobile device pricing that is applied to tech fund purchases is in line with the market. In most cases, businesses default to paying for devices under the same agreement and uncompetitive terms when the tech fund runs out, resulting in significant overspending. As few businesses consider these longer-term issues, most fail to negotiate any specific terms in their contracts to protect against overspending on device purchases during the term of their mobile agreement.

The reality is that "tech funds" are presented as device "subsidies", however in reality they are designed to remove competition from device purchasing and, in many cases, they allow the network to charge the business at greater than fair market prices for both devices and airtime services.

Truth #3 – Tech funds tie customers into inflexible contracts with unnecessary spend and term commitments

As highlighted earlier; "tech funds" are simply pre-agreed account credits (or unregulated loans) that can be used to buy network locked mobile devices over the term of your mobile agreement. These account credits are typically either applied as a single value at the start of the agreement, or more commonly they are released across each year of the term, thereby improving the cashflow position for the mobile network.

It's a common myth that tech funds and the devices purchased using a tech fund are "free". In fact, these devices are funded by the mobile network applying significant additional tariff uplifts to the mobile airtime charges over the term of an agreement. **In practice, tech funds are simply "off balance sheet loans" that can only be used to buy devices through one supplier**. However, unlike loans, your business has no clear insight into how much of your monthly mobile spend relates to the tech fund loan and how much is for the airtime. This creates an ideal environment for mobile networks to create and obscure large hidden profits without scrutiny from finance teams.

The mobile networks need to ensure that they will at least recoup the value of the tech fund loan over the contract. To achieve this, they build their return on investment (RoI) model based on a fixed term (typically 24 months) combined with either a minimum spend commitment or guaranteed rental revenue and often a minimum connection commitment as well. Unsurprisingly; those commitments are set at a level that more than guarantees the recuperation of the loan, however to protect themselves further, shortfall penalties and punitive clawback terms apply where these commitments are not met.

However; whilst the "tech fund" is normally a fixed or capped amount; the uplift on the airtime tariff impacts all mobile network spend, both up to and in-excess of the minimum spend commitment. On face value, the tech fund looks to offer value for money; however, no business ever spends exactly their committed spend over the term. So; for every pound spent over the minimum committed spend, your business ends up paying for a tech fund loan that you will never receive; and for every pound you underspend against the commitment there are excessive penalties that are applied.

Let's take an example. Your business agrees to a minimum committed network spend of £500k over 24 months with your network, and in return you receive a £200k tech fund. On face value the tech fund equates to subsidy or discount of 40% vs. the committed spend, and that's the value that goes into your model to compare different vendors and tariffs.

However, in practice if over the term your business spends £600k, then you will have spent £100k more than your commitment, of which 40% (£40k) is paying for a tech fund that you never received. This can also be viewed as reducing the relative value of the tech fund from 40% to 33% (£200k tech fund / £600k actual spend).

To compound this issue, the cost of the devices bought using this tech fund (especially for Android based smartphones) are often not subsidised at all; but are instead often charged at RRP or greater than fair market value. Meaning that each £1 of tech fund provided is probably more equivalent to 90p or less of real purchasing value.

For businesses that allow their contracts to fall out of contract after the minimum term, then the profits for the mobile network are very significant – as they will be making the extra mark-up profit on your total expenditure for no additional spend! At a consumer level this practice of charging for mobile devices after they have been paid off has been hitting the headlines recently – however, it's endemic in nearly all business mobile contracts and most businesses are totally unaware about how much it's impacting their IT budgets.

It's therefore little surprise that mobile networks are keen to retain the practice of issuing tech funds, so they can continue to obscure the real costs of providing mobile devices and airtime to business customers, and in the process ensure that there is limited or no scrutiny on device expenditure or competition on pricing from other vendors.

Truth #4 – Tech funds encourage hidden IT spending and remove governance and accountability

In most businesses, once the mobile contract is signed then finance and procurement departments will often have little or no involvement or influence on mobile device purchases. The IT department will however, often have total control over the new tech fund. The tech fund, as we discussed earlier, is by its nature a substantial "off balance sheet loan" or hidden budget, that can often be used with limited scrutiny and corporate governance.

In days past, when mobiles were £100, and all users received a new device every two to three years, this was less of an issue. However, with the advent of smartphones, device costs are now anywhere from £150 - £1,000 and there is rarely enough tech fund to go around. If there is enough tech fund in your business, then you should invest some significant time in looking at how much you are really paying for your mobile airtime, especially vs. the original vendor expenditure projections. **If you don't have the time or resources to complete this review internally, then challenge Utelize to demonstrate the real costs by taking up our no obligation mobile health check.**

IT teams are therefore forced to be selective as to which budget holders get the new devices and which don't – or more correctly – which budget holders pick up the tab for new devices and which ones get the "free" phones. This "unmanaged" spending would not be tolerated in any other spend category and this uncontrolled budget allocation creates an unhealthy conflict of interests. What's more, the temptation of a "hidden" tech fund budget has often led to businesses making the wrong device and airtime investment decisions. Decisions that tie the business into unsuitable long-term mobile contracts and ultimately lead to significant overspending that cannot easily be controlled.

Finally; as many businesses treat their device purchases as in year operating costs, they often fail to identify or recognise the significant overspending on devices that can occur over the term of a mobile agreement, as it is totally hidden within the overall "mobile costs" line. Recently to combat the growing spend on devices, there has been a trend for mobile networks to push for greater contract lengths to create ever larger front-loaded tech funds. Whilst this may solve a short term budgetary issue, it creates longer-term problems when the tech fund eventually runs out mid contract. Forcing the business to accept a mid-term re-sign on highly uncompetitive terms, and with little or no negotiation leverage.

In reality; the tech fund model benefits only the mobile networks, and your business should truly challenge any cost modelling or proposal that states otherwise.

Truth #5 – Tech funds distort business technology investments and remove much needed flexibility – impacting your business competitiveness & profitability

There's no real reason why mobile contracts should be 24 months as standard anymore, other than possibly for convenience. However; by accepting a tech fund your business will automatically be tying itself to the network for a fixed term, regardless of whether that term makes business sense or aligns with any IT strategy. Business requirements and technology are changing at a rapid pace, and so fixing your device refresh strategy to an arbitrary mobile contract renewal date is going to have a negative impact on your business.

In too many businesses, their device refresh strategy is "tech fund" led, rather than being based on a solid business case. This leads to spending on vanity upgrades when the new "tech fund" is secured and delayed upgrades when it runs out. Instead; businesses would be better placed if they removed tech funds and elected to take immediate tariff reductions on their network agreements to reduce operating costs, and then only invested when there was a genuine need.

Ultimately, IT departments need to deliver secure and flexible services that deliver value for money and tech funds destroy this flexibility and skew rational business decisions.

Breaking the mobile "tech fund" habit

At some point your business will need to make a tough decision. Will you carry on overpaying for mobile services and devices, locking your business into inflexible and outdated mobile contracts and commitments, in the hope of hiding a growing mobile device expenditure challenge? Or, will you face up to this device funding challenge, restructure your mobile contracts and put in place a clear strategy for mobile device and airtime purchasing and investment?

Without breaking the "tech fund" habit your business will never be able to achieve true value for money and you'll be contractually prevented from optimising your mobile spend. For those that want to break the habit, then please visit our Resource Centre, where you can download our range of Mobile Best Practice Guides, or get in touch to arrange a discovery meeting, and challenge Utelize to demonstrate how we can help.

Other Mobile Best Practice Guides from Utelize

- Five steps to effective management of mobile usage
- Negotiating the right fit" mobile contract for your business
- Rethinking mobile device purchasing and financing
- Implementing a "lifecycle" approach to managing mobile devices
- Planning BYOD programs beyond device security
- An introduction to Mobile Device Management (MDM) & security

Utelize – Managed Mobile for Business

At Utelize we specialise in providing managed mobile services that enable our customers to gain total control of their mobile airtime, devices and security; helping them to:

- Streamline the administration of mobile airtime and devices
- Reduce mobile network and device charges
- Free up IT resources for more strategic projects
- Cost effectively finance mobile devices
- Secure mobile devices and data
- Manage in-life device repairs and end of life trade-in and device recycling
- Control mobile data usage and roaming charges
- Implement effective mobile usage policy management
- Evaluate which mobile telecoms technologies and services can best support their business needs

To arrange a no obligation meeting and mobile health check, get in touch …

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