Utelize Mobile Best Practice Guide

Breaking the mobile “tech fund” habit

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Introduction

Mobile networks, devices and budgets have always been challenging for businesses to control. Mobile devices are with their users at all times, supporting both business and personal usage and applications; they typically sit outside of secure, “ring-fenced” corporate IT networks, and they’re more prone to loss and damage than all other forms of IT hardware.

Unlike most IT expenditure, mobile costs are also highly sensitive to end user behaviour, and controlling that behaviour is complex and resource intensive. The way we use our mobiles varies dramatically from user to user, and with the advent of smartphones it’s extremely difficult to draw clear boundaries between personal and business consumption. The arrival of 5G services in 2019/20 will only serve to increase this challenge, forcing businesses 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 and device management:

1) **Increasing mobile device costs** - that can no longer be subsidised by mobile network “tech funds”

2) **Increasing mobile data consumption** - driving greater management challenges and increased airtime costs with more frequent “bill shock” both domestically and abroad

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

4) **Increasing mobile security, data leakage, GDPR and compliance risks** - leading to increased pressure to provide and support corporate devices, as well as increased security and support costs, especially in regulated markets

Utelize has produced a range of best practice guides that offer a detailed look at the causes and impact of these converging challenges on mobile IT administration and budgets; as well as providing clear insights and best practice approaches that your business can implement to regain control. 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 our guide of interest and value with your own business mobile management and planning. Follow us on LinkedIn or Twitter or visit our website for more best practice guides and resources on managing mobile services, security and devices.

Mobile “Tech Funds” prevent effective mobile management and increase your overall mobile airtime and device spending

If your business is like most large UK based businesses, then you probably received a “tech fund” as part of your mobile network contract, which you can use to pay for your mobile devices. Until a few years ago, most IT teams just about balanced the mobile device budget through a combination of sweating assets, BYOD and 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, that is rapidly driving up mobile costs. To address this challenge, Finance and IT teams are going to need to work together with a strategic plan for mobile management, 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 see the 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 in your existing mobile budget and contracts that are yet to be exposed; and our best practice guides can help you to quickly identify and release these. Helping you to balance the need to drive down costs in the short term, maintain long term control, and to keep up with business demand for new technology.

However; before we get into the detail of these opportunities, it’s important to understand where and why you’ve been overspending. And that means taking time to understand why “tech funds” are one of the major root causes of overspending on mobiles services. Let’s explore some home truths about tech funds.

Truth #1 - 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 there are usually no alternatives presented at renewal time. 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 further later, in practice, “tech funds” 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

By accepting a “tech fund” your business is inadvertently tying itself into purchasing devices from your mobile network, but often without any real contractual review of the implications of this. However; most businesses do not give much consideration as to what happens when the “tech fund” runs out; what value the tech fund will deliver vs. the premium to be paid on the network charges; or indeed, whether tech fund device pricing is in line with the market.

Few businesses therefore negotiate any specific terms in their contracts to protect against overspending on device purchases during the term of their mobile agreement. **“Tech funds” are sold or presented as device “subsidies”, however in reality they are designed to remove competition and in many cases, they allow the network to charge the business a greater than fair market prices for both devices and airtime services.**

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

As highlighted earlier; “tech funds” are simply pre-agreed account credits (or 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 effect, **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 often 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 you spend in excess of the minimum committed spend, you end 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 spend of £500k over 24 months with your network, and in return you receive a £200k tech fund. On paper the tech fund equates to 40%, and that’s the “subsidy” or “discount” 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 £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 greater than market value. Meaning that each £1 of tech fund 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 – imagine making an extra 40% profit on your own services and goods 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 and therefore, obscure the real costs of providing mobile devices and airtime to business customers.

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 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, then you should invest some significant time in looking at how much you are really paying for your mobile airtime, especially vs. original vendor expenditure projections.

As a result, IT teams have to be a lot more selective as to which budget holders get the new devices and which don’t – or more correctly – which budget holders pick up the tab directly and which 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 the hidden tech fund budget has often lead businesses to make 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 actually creates longer term problems when the tech fund eventually runs out mid contract and business is forced to accept a mid-term re-sign on highly uncompetitive terms, that they have no negotiation leverage for.

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

Truth #5 – Tech funds distort your technology investments; remove much needed flexibility and impact your 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. Business requirements and technology are changing at such a pace, that the probability your real business requirements for new smartphones will happen to align perfectly with your existing contract renewal date is highly unlikely.

In practice, it is more likely that your business is either falling behind competitors by holding on to outdated technology after the "tech fund" has run out, or your profits are being spent on vanity mobile upgrades once the new "tech fund" is secured, instead of being passed through as reduced operating costs, until there is a genuine need to make a new technology investment.

As the networks need to guarantee as much revenue as possible from mobile contracts, they normally insist on both minimum spend and minimum terms. These commitments remove flexibility for the business to adapt to changing needs, and they lock in wastage once requirements and usage profiles change. It is therefore common to see businesses paying large rental charges on connections that are no longer used; or to find large volumes of connections that are locked into inappropriately expensive tariffs.

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

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 contracts and commitments, in the hope of hiding a growing mobile device expenditure challenge? Or, will you face up to this device challenge, restructure your mobile contracts and put in place a clear strategy for mobile device and airtime purchasing and management?

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 download our range of Mobile Best Practice Guides, or get in touch to arrange a discovery meeting, to see if Utelize can help.

Other Mobile Best Practice Guides from Utelize

- 5 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 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 as well as end of life trade-in and device recycling
- Control mobile data usage and roaming charges
- Evaluate which mobile telecoms technologies and services can best support their business needs

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

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