

Demystifying Contract Negotiations

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Telecommunications services are becoming more sophisticated and complicated. While the rates and service offerings are important, the contract language is equally important. Knowing the key points and what to ask for is essential to saving money on your bill.

In the not-so-distant past, understanding the basics of telecommunications was relatively simple. Twenty-five years ago, when a business needed "land lines" for local and long distance calls, it could simply contact "Ma Bell" and order them. Similarly, when that business needed to exchange voice or data information with a satellite office, it could order a basic point-to-point circuit or a WATS line.

Today businesses must choose from dozens of carriers who can provide landlines and data circuits, and there are hundreds of long distance providers.

Deciding which supplier to select is further complicated by the vast array of communications technologies available. In addition to traditional land lines and circuits, voice and data communication can occur via internet emails, cell phones, pagers, 2-way radios, frame relay, ATM, voice over internet, microwave, satellite, television cable, video and audio conferencing, etc. Telecom choices have increased exponentially to the point there literally are thousands of alternatives.

Today every vendor in the telecom industry offers different terms and conditions. They can be found in standard contracts, custom contracts, promotional offerings, or simple order forms. Further complicating the matter, some vendors are regulated by complex FCC or state PUC tariffs and regulations.

Selecting a telecom provider obviously is not as simple as accepting the lowest "cost per minute" offer. While cost is a major factor, other terms and conditions in vendor contracts can be more important. Businesses must avoid making minimum or maximum commitments they can't meet, committing to technologies or services that fail to meet their needs a year from now, and otherwise agreeing to pay penalties buried in the fine print. Remember, most terms & conditions found in vendor contracts were drafted by the vendors to favor themselves, not their customers.

Here are some basic considerations to level the playing field:

1. Have a strategy, make a plan and follow it. You will hear wonderful promises; great claims of low prices, great customer service and easy installation and see dazzling graphics of technology and the wave of the future. Do your homework, ask questions and make business decisions, not emotional decisions. Also give yourself plenty of time, especially if you plan to install any new technology or service.
2. Understand your telecom traffic. How much and what percentage of your traffic is outgoing/incoming, intrastate/intralata/intralata intrastate/interstate/international, intracompany/intercompany, switched/dedicated, peak/off-peak, steady/seasonal? How much do you spend on directory assistance, calling card calls, and teleconferencing? It is essential you summarize all this information, both on a current and projected basis. In order to accurately evaluate offers from competing vendors, have them base their proposals on your unique volume and mix of traffic.
3. Fix prices for the term of the agreement. Don't allow the carriers to increase prices unilaterally. Although it is commonly understood telecom costs are declining, few people realize carriers' standard gross rates continue to rise for most services. If your contract requires you pay the carrier's standard gross tariff rates less a discount, your net costs probably will increase

over the term of the contract. So be sure to negotiate for stabilized rates if possible.

4. Don't commit to a contract term greater than 3 years. The maximum in many cases should only be a term of 1 or 2 years. Because telecom prices are falling in general, don't lock yourself into rates that might become excessive in a year or two.

5. Don't commit more than 60% to 70% of your total traffic. Many telecom contracts are drafted as "take or pay." If your actual usage drops significantly, you might be liable to pay for services you never use. So give yourself plenty of leeway.

6. Don't commit to "exclusivity" terms. In return for what they say are aggressively low rates, some vendors want you to use their services exclusively. This could include local service, long distance, data, Internet, wireless, etc. As a general rule, you should avoid limiting all your telecom options to a single provider.

7. Request "business downturn" clauses. If your business experiences a significant drop in telecom usage based on a downturn in your business, or due to other circumstances beyond your control, this clause can help you avoid paying a penalty for failing to meet minimum usage commitments.

8. Request waivers of installation costs and other hidden costs. Many businesses fail to consider the one-time costs of installing new services that are provided by the vendor during the term of the contract, such as for adding or moving circuits. Vendors often will waive some or all of these costs if you negotiate them before signing the term contract. Similarly, this is the time vendors are most willing to waive "hidden" monthly recurring costs, such as circuit connection charges, minimum sub account fees, monthly billing fees, late payment penalties, etc.

9. Avoid monthly commitments and sub-minimum commitments. If the carrier requires you to commit to certain usage levels, be sure usage is measured on an annual basis, not a monthly basis. If your usage drops in the short run, a commitment measured monthly might cause a penalty. Similarly, avoid commitments of sub-minimums such as for required levels of international usage, or intrastate usage. They can result in penalty traps if the nature of your business changes during the course of the contract.

10. Never convey to a carrier the message you have chosen them before the negotiations are over. Be sure all your employees strictly adhere to this policy as well. Once the carrier believes it has won your business, you have lost all your leverage. There is no reason for the carrier to make any more concessions at this point.

These are some key guidelines for negotiating telecom contracts. However, the field has become so complex, the best advice is to emulate the largest and most successful companies in the US, including those with large internal telecom departments: Retain the services of an experienced, independent telecom contract negotiations firm, and let your employees focus on their core competencies.

David Solberg is Founder of Solberg/Adams, an independent telecommunications cost consulting firm. Mr. Solberg has spent his entire career as a "cost-reduction" expert, helping both businesses and individuals reduce expenses and improve profitability. In 1993, Mr. Solberg founded Solberg/Adams LLC, a telecommunications cost consulting firm, to audit telecommunications expenses for savings and refunds. The firm is comprised of professionals with telecommunications and engineering backgrounds, as well as professionals with legal and accounting backgrounds. Solberg/Adams also offers an outsourced telecommunications invoice payment service, in which they directly receive their clients' invoices, audit them for savings and refunds, dispute and resolve billing errors, approve the invoices, allocate the expenses to clients' GL codes, pay the bills, and provide detailed monthly reports generated by their proprietary software. Over the last 12 years, they have reduced costs by millions of dollars for hundreds of clients, including Fortune 500 companies. Mr. Solberg can be contacted at 503-292-3131, or at solbergd@solbergadams.com

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