

Telecommunications Vendor Contracts:

Identifying and Eliminating Threats to Controlling Costs

Probably more so than with any other administrative service providers, telecommunications vendors benefit from what can be extremely wordy and complex agreements, these benefits coming at the expense of the customer's bottom line profitability. Even under the most deliberate scrutiny by experienced IT or procurement professionals, easy to overlook or seemingly innocuous details can wreak havoc on indirect costs, and eat up any potential gains from preferable service rates. It can be surprising how even the little things can add up to material cost increases in the case of larger customers.

Because telecommunications expenses can represent a significant percentage of an organization's indirect cost structure, it is especially important to limit exposure to unnecessary risks posed by vendor tactics. The keys to protecting an organization from these risks are relatively straightforward:

- Learn to recognize unfavorable terms and conditions
- Seek industry experts and information to help prepare more favorable terms, conditions and/or contract language
- Exercise the power to negotiate a more favorable pricing and terms.

As an example, a major telecommunications provider often uses the tactic of establishing an Effective Date as "the date on which the last party signs this attachment." This allows the vendor complete control over when new pricing takes effect. More favorable language would indicate an effective date of within 6 days, but no more than 30 days, after execution of the agreement by the customer.

Another tactic is limiting the time period (commonly 90 days) in which a customer has to identify and submit for rebate any erroneous charges. More favorable language would indicate a time period of at least the equivalent of the contract term; any additional time will only be to the customer's advantage.

With respect to Rates and Regulatory Surcharges, the language commonly used by providers gives them the power to raise rates with no restrictions in response to FCC rate changes. More favorable language would place a cap on increases of 2-5%, with an option of contract cancellation by the customer if tariffs exceed the indicated cap.

Minimum Annual Revenue Commitments (MARC) expose the customer to charge-back penalties of between 30%-100% if minimums are not met; the most favorable language will indicate the lowest possible penalty. When entering into a new or amended contract with a vendor, make sure that the previous minimums are appropriately adjusted, especially when being offered lower service rates.

When reviewing Discounts, confirm that all specific services are locked in at the preferential rate for the life of the overall agreement, as opposed to conditions limiting individual service terms.

New contract proposals often include an extensive analysis to support quoted savings. The fact is that these analyses are often inaccurate, and can significantly misrepresent actual savings; a case in point is a proposal by a major vendor which ultimately produced actual savings of a mere \$4000, when projected savings were quoted at \$2,000,000!

Other items with the potential for disadvantageous terms and conditions include:

- Service outage credits
- Monthly Recurring Charges (MRC)
- Vendor service change notification
- Revenue commitment eligibility
- Service/technology type minimums
- Billing cycle increments
- Custom billing charges

As a final recommendation, it would be advantageous to keep abreast of all new contract language introduced into amendments or other future agreements by your telecommunications vendor, as anything new might pose a threat to the effective management of administrative costs.