

The Seven Deadly Sins of Telecom Procurements

Too many times, companies have come to us for help with a transaction after they have made mistakes that drastically lower their odds of getting a good deal. Too many times, even after we have been engaged, companies compromise their ability to get the deals they want.

There are lots of reasons for this, but here is our list of the most common serious mistakes companies make in procuring telecommunications (and related products)—the seven deadly sins of telecom procurement. You won't find envy, lust or wrath on the list, but gluttony, sloth, greed and pride figure prominently.

1.) Beginning the procurement process too late: You may have been really busy, but if you're an enterprise customer with only three months remaining in the term of your existing telecom contract, you've waited too long to start a competitive telecom procurement. There just won't be enough time to construct and issue a Request for Proposals (RFP), evaluate vendor responses, go through one or more rounds of additional bids and evaluations and negotiate a new contract.

Because there won't be enough time, the providers you don't already use will question whether your bid presents a genuine opportunity to win business. Even more significantly, your incumbent service provider will go into the process thinking that you almost certainly will select them because you don't have the time or inclination to change vendors. They'll understand that you're hoping that you can bluff them into a better deal. You may get improved rates (depending on how bad your existing rates are), but they will lag market leading rates.

If you find yourself with too little time, your last best hope, depending on how much time you do have, may be to commit sufficient resources to

complete the process expeditiously. Or try to extend for one year and then go back again and do it right.

2.) Failure to create appropriate vendor perceptions: If you are unhappy with the service,

account team support, billing, pricing or anything else that is significant, make sure that the incumbent supplier appreciates your unhappiness. Also, make sure that would-be providers understand that they have a real chance to win significant business.

The process of creating these perceptions begins months before you release an RFP. Don't undercut these efforts by telling your staff that you have no intention of changing suppliers. Incumbent vendors usually have good intelligence-gathering capabilities. They

can learn a lot about your intentions from your staff. Make sure that your message is consistent.


3.) Overlooking the importance of management support: If you think that an incumbent vendor won't do an end run around you to persuade your management that your plan to change vendors would not be in your company's best interest, think again. Vendors will use personal and business relationships to lean on your management for information and to gain a leg up in the negotiations.

Keep your management informed, and get their support—we call this "management upwards." If there are business considerations of which you are unaware, ferret them out early in the process when strategies and expectations can be aligned.

4.) Failure to develop a solid baseline: You cannot expect to conduct an intelligent procurement unless you understand how your telecom expense is spread across services, locations and business applications. If you don't understand the spread, you won't know where the best opportunities for



The path of the righteous manager is beset on all sides. Especially when a contract is due



**Don't blow it
in the bottom
of the ninth**

savings are, you will probably misperceive the bottom-line value of vendor RFP responses, and you will not understand the true costs of a complete or partial network migration. Your incumbent carrier's "estimate" of your traffic is invaluable—to your incumbent vendor, not you.

5.) Assuming that getting a set of competitive bids automatically yields the best price: Even if you've done everything right until you get to the point of evaluating bids, you still have plenty of chances to blow it. Some corporate procurement specialists think that because they buy products and services for a living they know how to secure a fabulous telecom deal. But it's one thing to understand procurement, and quite another to know what makes a good telecom deal.

In our experience, vendors never make their best offer in their initial RFP responses. Indeed, they often don't reveal their bottom-line proposal even after the so-called "best and final" round. You need to know the market to know when vendors are "blowing smoke." If a customer isn't in the market on a regular basis, s/he won't be able to knowledgeably evaluate vendor proposals—and since the demise of tariffs (a good thing for customers, overall), publicly posted telecom prices are like the list prices of Persian rugs.

Hire someone who knows the market and let them help you interact with the vendors. If you've hired someone knowledgeable and experienced, at the end of the process you'll have better prices than you would if you simply went with the vendors' proposals.

6.) Settling prematurely on one vendor: You're almost finished. You got some good help, were smart and aggressive during the RFP process, and think you know the vendor with whom you would like to contract. That is not the time to "down select" to a single finalist.

Until the contract has been negotiated, you do not know the deal. We have experienced many cases in which (1) the economics of the deal changed after specific prices were examined closely; and (2) contracts inappropriately imposed significant operational and economic risks on the customer.

Keeping multiple vendors alive at least until the pricing and major issues have been resolved maximizes the customer's leverage. It is also a good idea, if practical, to have deals with multiple vendors—telecom vendors are in business to make money, and they "reward" customer loyalty with higher prices and inferior terms because they see it as a sign that they can be less than competitive and still keep the customer's business. Customers who use at least two vendors to meet their telecom requirements, and have arranged for the key contracts to end at about the same time, have set the stage for vigorous competition for the bulk of their business.

7.) Getting impatient in the end-of-the-process squeeze: Impatience is perhaps the most common

and most damaging of the deadly procurement sins. You've negotiated a good price, and now you (or your CFO) want to "book the savings." You (or your management) may have anticipated the savings in budgets.

Vendors understand this thinking and they take advantage of the customers' desire to conclude the deal as soon as possible after the price negotiations are completed, citing the prospect of delay to secure concessions in the contract negotiations. To book the savings as soon as possible, customers will rationalize neglecting or surrendering in areas such as performance specifications, risk allocations, commitments, billing and reporting requirements, data security and many other important contractual issues. In such an environment, vendors can win back some of the leverage that they lost in a properly executed procurement.

To avoid the end-of-process squeeze, customers should set a deal execution deadline well in advance of when they anticipate realizing savings, and should never disclose the true internal deadline to the vendors or even internal staff who may interact with the vendors. (Remember our warning about carrier intelligence efforts.) A customer should also be willing to suspend negotiations with a difficult vendor and shift to an alternate if the first vendor's stubborn unreasonableness persists. Don't blow it in the bottom of the ninth.

Conclusion

We want enterprise customers to win good deals, and we've never shied from offering blunt advice to help enterprise customers accomplish just that (some folks say it's part of our charm; other folks have less printable reactions). Our advice is not always easy to follow, but after having done hundreds of deals, we know that those who do follow it secure first-rate telecom deals, and those who don't, get cruises to Hawaii...for their vendor's sales teams □

Hank Levine and Jim Blaszak are partners in Levine, Blaszak, Block & Boothby, LLP, (LB3) a Washington DC law firm that specializes in the representation of enterprise users in connection with their procurement of network-related services; before the FCC and other telecommunications regulatory bodies; and in disputes with service providers. LB3 and its consulting affiliate, TechCaliber, represent scores of large users, including about half of the Fortune 100. Jim and Hank speak and write widely on telecom sourcing and regulatory issues. See www.lb3law.com and www.techcaliber.com.