

# CONTRACT MANAGEMENT STRATEGIES

## REAL SAVINGS OPPORTUNITIES WITHIN WEEKS

If you are a CFO, CIO, Sr. Procurement Officer, or even a Telecom Manager, how many calls do you get a week from companies making extraordinary promises to reduce your telecommunications costs? That broad category of expense includes everything from local, long distance, network services, wireless voice, wireless data, hardware, and software to all forms of professional services. Decisions for some of these services may be controlled centrally while others may be made locally, at the edge of your company's enterprise. In some cases your organization may have deployed tools, such as Telecommunications Expense Management System (TEMS) to manage these service expenses. Needless to say, whether your company spends \$500K or \$100M annually you need an **active** strategy to manage and control these expenses.

MacBeth Williams, through years of experience working with the Fortune 1000 on just such initiatives, has come to develop a three part **Contract Management Strategy**. Most organizations universally recognize the importance of a hard fought, strongly "worded" contract. Such a contract delivers "best in class" rates and prices for the anticipated services you will be consuming during the agreement. One primary rate objective is to fix the rates for the contract duration such that they don't fluctuate upwards during the term of the contract. Equally important, is creating certain flexibilities such that should prices fall during the contract term you would have the opportunity to seize those falling rates as well. In either case, most major carriers do not willingly offer these contract accommodations without some resistance before acquiescing.

Most domestic carriers structure their contracts with a revenue requirement taking precedent over a calendar term commitment. Most carriers will try and walk the line between the benefits coming from each form of commitment by demanding revenue commitments in each and every year of a multi-year contract. Attempting to secure the most advantageous contracts, carriers will almost always begin their negotiations with the offer of a long term contract with a revenue commitment virtually commensurate with your anticipated spend during those contract years. If agreed to, the carrier will have secured all leverage in your future business dealings making any effort on your part to change the nature of the relationship or the carrier's performance within that relationship next to impossible.

MacBeth Williams supports negotiating revenue commitments over the term of a contract. No refreshing the revenue commitment each and every year as preferred by the carriers. Structured in this manner, customers have a single revenue target and the duration of the contract from which to retire that commitment. Experience tells us revenue commitments configured in this way are retired earlier enabling customers rather than carriers to retain negotiating leverage at the later stages of a contract.

Other contract terms noteworthy, especially in these trying economic times, include negotiating leading payment terms. Limitation of liability, indemnification and insurance are all important provisions that can have economic impact. The actual term of the agreement in conjunction with the provisions by which the contract can be terminated, renewed, or extended are of paramount importance as well as having the variety of contracted services terminate at the same time.

However, the most important provision when negotiating a carrier contract is the construction of the revenue commitment.

Carriers, quite naturally, will want you to commit to 100% of your projected spend with them. You as the customer, with equal conviction in your argument, will want to commit nothing. From these two diametrically opposed positions, some form of equilibrium must be reached. Obviously, the lower the commitment from you the customer, the greater contract leverage you retain. Experience suggests a revenue commitment ranging between 60-70% for contracts demanding an annual revenue commitment and a revenue commitment ranging between 70-80% for contracts offering a revenue commitment based on the term of a contract provide optimal leverage based on current negotiating conditions. When negotiating these terms, be careful not to accept or agree to any sub-commitments.

Keep in mind, most carriers will vehemently object to these commitment levels as well as your insistence on a term commitment value rather than the annual calculation. They may go so far as to claim these terms do not align with their offered discounts, so it is important to stand firm on these points. Over the years we have found carriers who tout commitment levels and depth of discounts are closely tied rarely hold on to those arguments when confronted with the prospect of a competitive bid. At the end of the day, securing business with the potential for value add services, typically outweighs all else.

***Thus step number one in a strong contract management strategy is negotiating a contract with rates at or below market, fixed for the term of the contract, and under an achievable total revenue commitment structure absent of any sub-commitments.***

The second step in an active contract management strategy is to ensure contract compliance. In other words, the rates, discounts, and prices on your invoices match the rates, discounts and prices in your contracts. Due to the complexity of billing platforms utilized by the carriers, entire vertical markets focused around telecom contract compliance and correcting erroneous billing have emerged. Initially before the ubiquity of software applications, many customers utilized and some still utilize the services of outside experts to audit billing and invoicing by comparing billed rates to contract rates. When an over-billing is detected, typically in arrears, refunds or invoice credits are requested. As additional mergers and acquisitions among the carriers have taken place in recent years, we find an increasing level of erroneous billing requiring detection and repair.

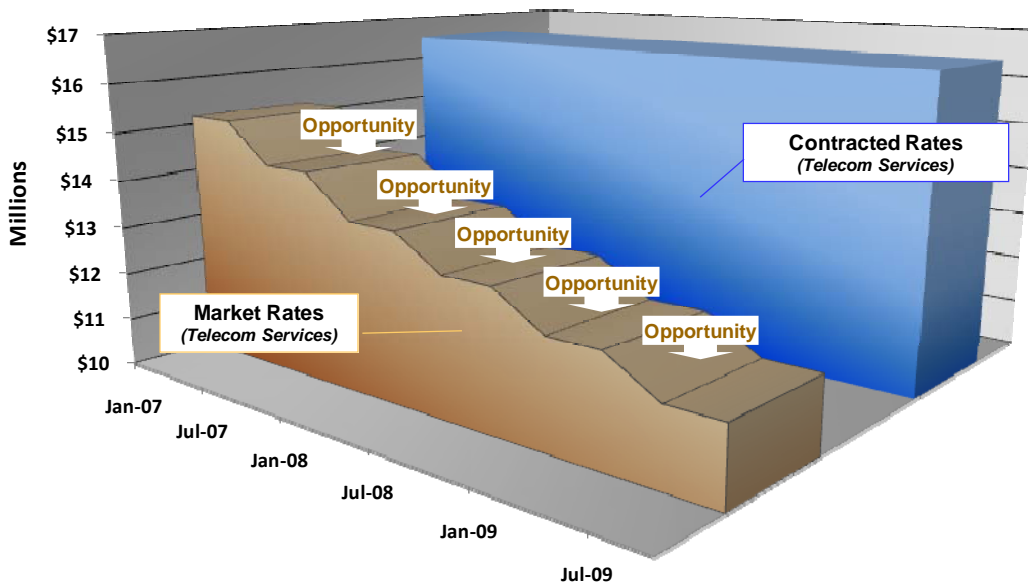
The accessibility of automation has enabled software applications such as TEMS and WEMS (Wireless Expense Management Systems) to emerge as commonplace solutions in addressing billing and invoicing discrepancies. Unlike the once a year audit, TEMS and WEMS review billing and invoicing for contract compliance and optimization (WEMS) on a monthly basis. Each also offers the promise and benefit of inventory control for tracking active and decommissioned services/devices of your enterprise. Interestingly, some companies only use TEMS and WEMS for their automation of invoice approvals and AP processing thus the full potential of these application platforms is never used.

***Step two in a strong contract management strategy involves incorporating increasingly common tools to ensure contract compliance and maximize any and all opportunities for contract improvement and savings.***

The third and least appreciated step in an active contract management strategy is capitalizing on contract leverage. This process brings your contract pricing in line with current market rates and creates a plan of action to hedge against unforeseen price increases. Foundational to this step is the presence of contract leverage. Contract leverage can be amassed in any number of ways: from expenditures in excess of revenue commitment levels -to- proximity of contract expiration -to- a merger or acquisition affecting the size of your company's service portfolio. Conversely, expenditures well short of commitment levels, contracts at the beginning of their contract cycle, and or company divestitures, could all signal limited contract leverage.

Assuming the presence of contract leverage, in contrast to negotiating a new contract or conducting a billing audit or TEMS/WEMS deployment, the process of an intra-contract review and subsequent renegotiation can yield results in a matter of weeks as opposed to months.

Have you ever wondered why you see proposed savings in excess of 30% when you negotiate a new telecom contract close to your contract expiration date? Contract erosion is the concept of paying a static rate for services while the competitive / open market rate is trending downward. The delta between your contract rate and the then new market rate equals savings and lost opportunities. Some organizations have gone to great lengths to incorporate provisions such as Rate Review clauses into their contracts; however, these clauses rarely have the teeth to actually compel a carrier to reduce your rates. It is more crucial to obtain and grow contract leverage, so these clauses, where present, can actually garner results. Even in the absence of these clauses, renegotiations can affect change when you have growing contract leverage, knowledge of market rate opportunities, and an effective plan of action that prioritizes and quantifies savings opportunities.



***Step three and our sub-thesis: True, a strong contract management strategy is all about contract terms and pricing as well as having the tools to govern contract compliance, but results in the form of savings whether immediate or longer term is all about contract leverage. The continuous amassing contract leverage is essential to any contract savings opportunity.***

In conclusion, all three of these “Best Practices,” strong contract foundation, efficient contract compliance, and contract flexibilities created through contract leverage, contribute to achieving the goal of paying the lowest possible price for the highest value telecom services throughout your contract cycle. Information devoid of strategy will yield only nominal results. You need qualified and quantified information to prioritize areas of opportunity and a plan of attack to deliver on these opportunities. Should you need a source for qualified and quantified information; MacBeth Williams can support your initiative through any number of our innovative Contract Management Strategies.

For more information on our various Contract Management Strategies contact us at 770-850-0607 or at [information@macbethwilliams.com](mailto:information@macbethwilliams.com).