Five Pitfalls to Avoid When Negotiating Telecommunications Contracts

By Doug McMillan, President, Telcom Insight, LLC

Negotiating a great price on voice and Internet services is critical to most businesses, but it's only one of several important aspects involved in crafting a contract. Here are five pitfalls to avoid as you lock in the best possible deal and service from your vendor, to help ensure that you're provided with the quality and service levels you need at a fair price.

Pitfall 1: Neglecting to confirm your current contract status

Could there be an "auto-renewal" clause in your contract? It's vital to know whether your current contract for carrier services has expired and whether your carrier will let you upgrade without penalty. You may be well beyond the original 36-month term; however, most carriers have "auto-renewal" clauses in the fine print of their contracts.

As you approach your anniversary date for service, some carriers require that you give them 30 days prior notice of your intention to terminate services or upgrade. The key here is beginning the shopping process 60-90 days before contract expiration.

I can't tell you how many times a carrier representative has verbally confirmed that a customer is beyond their contract expiration date and "free to leave without penalty," only to deny it later after the auto-renew clause kicks in. So if your carrier says you're no longer under contract, ask for proof of that in writing (an email will do), and get their employee ID number and name. Filing a complaint later with your state Public Utility Commission ("PUC") will be much easier if you're armed with names and dates.

Pitfall 2: Settling for "rack rates"

After a complete assessment of your current needs (more internet bandwidth, MPLS private network linking sites, more voice service capacity, etc.), ask your current carrier representative whether any promotions are available. Don't settle for "rack" rates.

Carriers often have three to five different prices for the same T1, voice line or DSL service, and any one price can vary by as much as 50% from their standard pricing. Direct carrier sales representatives are usually told not to proactively offer promotional pricing, and receive higher commissions for selling standard price levels, so it's important to be proactive and ask.

Pitfall 3: Failing to shop the competitive distribution networks

Once you get a proposal in writing from your carrier's representative, use this information to "shop." As in the insurance industry, telecommunications companies rely on an independent network of sales organizations to sell their products. These consultants, or brokers, are usually motivated to beat the direct carrier pricing you've been quoted.

These consultants are paid by the carriers a one-time or ongoing residual commission to find you the lowest price, so there should never be a charge for their services. They typically don't act as "resellers," because your billing and customer service will continue to come from the carrier directly. A good brokerage usually has back-office support that can help you above and beyond the carrier's service down the road when chronic service or billing issues arise.

A Tip: Carriers sometimes have promotional offers specific to certain competitors that are taking market share away from them in specific markets. For example, AT&T offers an attractive Internet T1 promotion that can only be obtained when Time Warner is the competitor. Again, your independent broker should bring those offers to light for you.

Pitfall 4: Focusing solely on price and not on services

Your company can't operate at peak efficiency unless it's reliably getting just the right services. In analyzing the quotes and options from your search, pricing is just one of the parameters to be concerned with. Of course you want the lowest price, but reliability is also key. Some carriers offer low pricing, but offer a flimsy network path of delivery. Voice and Internet connectivity are the lifeblood or fuel on which your company operates. Shutting down the electricity to your building would probably get the same reaction from your staff as having Internet or voice services fail. You simply can't operate your business today without these basics.

So, when analyzing carrier options, consider true redundancy in planning process. Redundancy starts with the carrier's network, how it enters from the street to your building, how it climbs the risers in your building, and how it ends within your office network. You want the most reliability allowed by your budget, and all carriers will point to their Service Level Agreement (SLA), claiming that they offer 99.999% uptime ("five-9's"). But SLAS aren't audited by any regulatory agency, serving mainly as a method of measuring what kind of rebate you will receive if there are a certain amount of downtime hours in a calendar month. How does this actually help you if it's not a guarantee?

Start by asking the carrier what their network physically looks like in bringing your building Internet services, for example. Some carriers purchase critical links in their network from other carriers, which can be problematic when trying to identify the point of failure during an outage.

Inquire about how they might re-route traffic getting to your building if a critical link goes down. The local phone company usually has the advantage since it owns most of the fiber in the ground, and the network of central offices (CO's) to re-route traffic when needed. For maximum redundancy, consider a second stream of Internet with an automatic fail-over plan with dual input router, even if it's only a $50 monthly DSL connection.

Pitfall 5: Not being cautious of the low-priced carrier

Carriers who add too many customers or "over subscribe" their networks are the industry's dirty little secret. Oversubscription has existed since the first operator got hired and a caller had to wait for a call to get manually connected during peak times.

If everyone picks up the line on their desk at the same time and "requests" a dial tone, there simply won't be enough paths to accommodate everyone at once. Ever dialed and heard the "all circuits are currently busy" recording? Carriers "size" their networks with expected peak demand, but not to handle everyone simultaneously.

It's the same with Internet access. A carrier may service your local CO with 45MB DS3, but then sell a hundred 1.5MB T1s from it, hoping no one will notice.

Start by asking what bandwidth you are being guaranteed, and how it's being delivered. DSL and cable modem services are less expensive per megabit because they are delivered via a shared network with your neighbors. A T1 can be shared within a "cloud" of users as well (frame relay) and this method will slow down your speed during peak demand. Some carriers deliver via a dedicated circuit from the Internet point of presence all the way to your office. AT&T, for example, now delivers "dedicated" point-to-point instead of a frame relay, shared delivery.

Conclusion

Do your homework. Focus on getting the best deal in dollars spent, types of services provided, and service levels guaranteed.

Doug McMillan is President and CEO of Telcom Insight, LLC in Manhattan Beach, CA.