

# Let's Make a Deal

## Negotiating a Telecom Contract Is a High-stakes Poker Game

By GREG PELLERIN

The IT department at Company A signs a new three-year contract renewal for local, long-distance, and data-network services, providing for a 25% discount off published rates. The contract is expected to save hundreds of thousands of dollars over the current agreement, and the chief technology officer is commended for his hard-nosed, take-no-prisoners approach to negotiations.

A call is placed to the telecom company, and the conversation goes something like this.

"You told us if we signed this contract, we'd save 25%, but you didn't tell us other companies were getting even bigger discounts, even though they spend less than we do."

(Long pause)

"Uh.... yeah. Well, you have two and a half years left on your contract, and we'll see what we can do at that point."

Company A will end up paying hundreds of thousands of dollars more than Company B for the same services even though they are a larger client.

Scenarios like this are playing out for businesses of all sizes across the country as skilled, in-house salespeople for the nation's major telecommunications companies are front-loading renegotiated offers in an effort to lock businesses into new, long-term deals.

"The carriers do this for a living, day in and day out," says technology expert Darren DeMartino. "It's a high-stakes poker game, and they're dealing the cards. IT executives negotiate new telecom agreements only once every two or three years. It's unrealistic to expect they'll be as effective as someone who does it day in and day out. Carrier representatives are trained to maintain as much margin

as possible and directed by a compensation plan that penalizes them for lowering prices."

The typical telecom contract covers three years, and much can change over the course of that term. If the past few years are any indication, pricing will continue to go down as new technology, features, and functionality become mainstream. DeMartino offers the following tips for approaching any telecom renegotiation process.

- Insist on eliminating auto-renewal language. Most telecom contracts (as well as some other agreements) have an auto-renewal clause that will lock you into another term period unless you notify the carrier within a predetermined window of time. Push for a month-to-month extension (guaranteed at the same rate), or accept removal of this language altogether.

- Look for agreements that provide significant revenue-commitment flexibility. If guaranteeing more than 70% of your current spend, you could be locking yourself into a situation that the carriers will take advantage of down the road.

- Shop around. The big boys (Verizon, Comcast, ATT) are not the only games in town, and, in fact, there are literally hundreds of telecom providers in the U.S. Universally, telecom costs have been decreasing more than 20% a year. The compounding effect over the course of a three-year agreement is significant, yet many businesses re-up at the first offer they get from their incumbent provider, leaving

Continued on page 58



*You don't have to wait until your contract is up in order to renegotiate better terms. The telecom world is more competitive than ever, and it may be easier to strike a deal well before a contract expires.*

Fast-forward six months. Company A's CFO is having dinner with his counterpart at Company B. The subject of rising technology costs comes up in discussion, and Company A's CFO is shocked to learn that Company B has just contracted to pay thousands of dollars less on its monthly telecom bill for essentially the same services, with the same provider.

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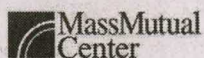
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## Contracts

Continued from page 53

significant savings on the table.

- Negotiate co-terminous agreements wherever possible. It's always to a company's advantage to have the various types of service agreements terminate at the same time. Be leery of subcommitments (i.e. an overall commitment, and then a smaller commitment for each different service type). Failure to fulfill a small commitment in one category could result in significant penalties overall.

- When in doubt, hire an expert to handle negotiations. Bring them in from the start of negotiations or after you've done the heavy lifting. In most instances, they can evaluate an offer within 48 to 72 hours and ensure the absolute best deal is

on the table.

You don't have to wait until your contract is up in order to renegotiate better terms. The telecom world is more competitive than ever, and it may be easier to strike a deal well before a contract expires. It's always easier for a provider to keep a current customer than find a new one. Use that knowledge to your advantage.

On the old *Let's Make a Deal* show, contestants were always hesitant to take Monty Hall's first offer for fear of getting 'zonked.' In today's complex telecom environment, that fear is well-founded indeed. ■

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## CNR MA

Continued from page 8

"It's critical that companies assist CNR in their efforts to get the workforce," he continued, "but also make certain, as the workforce is selected, that we have an infrastructure in place to continue to provide skills to their incumbent workforce. In my opinion, this area has the educational infrastructure to be able to respond to workforce needs, which is not something you find in too many areas. I suspect one of the reasons CNR chose Springfield as a location for their facility was that they saw the resources available here, and I think that was important to them."

CNR MA expects to break ground on its new, \$60 million plant sometime in 2015, just as planned worker-training programs begin to gear up. The initial project to build 152 Orange Line cars and 132 Red Line cars — replacing vehicles that have been in use for between 35 and 45 years — is set to continue until a planned delivery date of 2021, but by then, the company is hopeful that an expanded workforce will be busy with other projects well into the future.

"This is huge," Cruise said, "not only for the whole issue of job creation, but also for some of the smaller companies, sheet-metal companies, and the labor unions here in the area, who can be suppliers and partners in this work."

"We think it will have a ripple effect on other companies," he continued. "Whenever you bring a manufacturing facility of this magnitude in the area, there will be some spinoff for some of the smaller companies that provide goods and services to them. That's critical."

Richard Davey, secretary and CEO of the Mass. Department of Transportation, recognized the importance of this project to the people of Springfield.

"The governor has talked about transportation not being about just trains and buses, but lifting communities, about jobs and economic development," he said.

Added Patrick, "they've been thoroughly vetted; they've constructed these kinds of cars all over the world, and they're very well-respected. One condition of this deal is that they do the assembly and manufacturing here in Western Mass.,

and they have chosen to do that right here in East Springfield."

### Springfield Bound

Sarno suspects that most people didn't consider his city a front-runner, yet, after CNR Changchun officials visited about 50 sites along the Northeast corridor, it settled on Springfield.

"Even though the region's manufacturing base has eroded since the old days, dating back to the '70s, it's still a hotbed for precision machining," he told *BusinessWest*. "And they liked what they saw here. They liked the supports from the city and state, they liked the workforce development we have here, our farm system, and they really loved the property."

The mayor also believes the rise of a new industry in Springfield could be a catalyst to attract other manufacturing firms of all types. "I think it's the best advertisement to come to Springfield."

Kennedy said a manufacturer of this size and reputation locating in Western Mass. is unheard of these days, but in a way, it fits in perfectly with the other positive changes happening in Springfield, from MGM Springfield and Union Station to the area colleges procuring a presence downtown and the development of an innovation district plan.

"All these pieces of the puzzle are coming together — it's happening," he said. "There's certainly enthusiasm happening in the business community, recognizing what's happening here. What we need now is to translate this into a real marketing effort for Springfield, so the general public can see it."

And other businesses, of course.

"We really are at a pivotal moment in the city's history," Sarno said, citing not just potential new jobs, but planned improvements in public safety and education. "We're moving in the right direction, though obviously we always want to do more."

"I'm bullish on Springfield," he concluded, "and I think people are starting to be bullish on Springfield as well." Including, in CNR Changchun, one more large firm that's betting big on the City of Homes. ■

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