

Selecting, Managing, and Measuring Performance of Telecommunications Negotiating Teams

Global Networking Strategies

Negotiating telecommunications agreements is an important activity that, if done well, can directly affect the enterprise bottom line. The problem is that 75% of the negotiators representing enterprises have never been through a complete negotiating cycle. Selecting, managing, and measuring the performance of negotiating teams is critical to bargaining table success.

Several important precursors to contract negotiations exist, including conducting an architectural review, preparing a circuit inventory (for the current and new architectures), identifying business-critical links, and issuing a request for proposal (RFP) to evaluate and select a carrier. Although these activities are not specifically part of the negotiating process, they establish the enterprise's objectives for negotiation.

To negotiate telecommunications contracts, most enterprises use negotiating teams from the IT organization (voice and data), as well as personnel from the purchasing and legal departments (2002/03). Although many enterprises are beginning to recognize the importance of using outside professional negotiating teams, we do not expect common use before 2004/05. By 2005/06, complete outsourcing of telecommunications services, including telco portfolio management (which includes telco bill management, professional negotiating, and advisory services), will be best practice for cost containment (see GNS Delta 932, 26 Nov 2001). By 2007+, telecommunications contracting will change as virtual services expand the telecom product mix, making the use of professional negotiating teams critical to maintaining a competitive edge.

Selecting a Negotiating Team

Users should establish an architecture team six to nine months prior to the planned contract date (or termination date of the current agreement). The architecture team is charged with documenting the current architecture and circuit inventories as well as optimizing the network architecture as needed.

The same team should then be augmented with experienced negotiators (if available), internally or externally (professional telecom negotiating services), along with purchasing personnel for the preparation of the RFP. During this phase, the objectives for the negotiation cycle are determined and documented. These goals are used for the following:

- ▲ Selecting carriers from the RFP replies by measuring their ability to meet the goals for the contract cycle
- ▲ Preparing an RFP for professional negotiating assistance (if needed)
- ▲ Metrics, to ensure that goals are met during negotiations with the selected carrier

Setting Objectives for Negotiations

The general objectives are defined in the architecture review and, as previously suggested, are reused throughout negotiations. In reality, not all items on the list may be achievable because contract negotiations involve give and take by both parties in the process. We recommend that the completed list be prioritized and broken into the following three bands:

- ▲ **Must haves:** Items in this category must be met or the user walks away from the negotiating table.
- ▲ **Niceties:** Items that are nice to have but not mandatory. It is best to think of this as a trading list. Users can trade a nicety for a must have to conclude negotiations, if necessary.
- ▲ **Dream list:** Just what the name implies.

Setting objectives and banding is an important part of determining goals for the negotiating team and measuring success at the bargaining table. If the enterprise then chooses to augment its team with outside negotiators, these lists become the framework for the enterprise contract with the negotiating service. Furthermore, the weight given to the objectives, combined with the metrics (described as follows), provides a real framework for measuring success at the bargaining table or the success of the professional negotiating team.

Obtaining Accurate Data to Prioritize Objectives

The enterprise needs market information regarding pricing and industry trends that have transpired since the last negotiating cycle. It also needs a compendium of suggested terms and conditions that are relevant to its negotiations. This information should be used to support the banding done on the objectives previously described. However, enterprises must also plan to negotiate pricing caps in the event that benchmark data reveals price increases. The best source of real contract data will come from IT advisory services (e.g., Gartner, META Group, Forrester), or from bill auditing companies (e.g., ProfitLine, Teldata Control, QuantumShift).

Measuring Effective Negotiating Teams

Enterprises are beginning to realize that they need to measure the effectiveness of the negotiating teams representing them in contract negotiations with carriers. To do this, the enterprise needs metrics. The best source for metrics is utilizing bill management services (e.g., ProfitLine, Teldata Control, QuantumShift), engaging them at least six to nine months prior to negotiations. The metrics needed include the following:

▲ **Circuit inventories:** These are needed to prepare the RFP and the migration plans if a new carrier is selected.

▲ **Service costs:** These are for interstate voice, frame relay, IP/VPN, etc., calculated before and after negotiations. Billing summaries should be used to determine real savings by service (if any), or whether new architectures resulted in any net savings.

▲ **Benchmarking negotiated savings (if any):** This is done by comparing average costs before the new agreement with average costs after the new agreement is implemented. The amount really paid will differ greatly from negotiated contract prices, especially if the contract is based on tariffs (intrastate) or price list discounts, where real prices can change during the term of an agreement. Bill summaries provided by bill auditors are a reliable way to compare cost metrics.

Augmenting a Negotiating Team With Experienced Personnel

There have been tremendous changes in the telecommunications market during the past two years, including major regulatory changes such as detariffing, changing technology, and relational pricing that makes some newer technologies more attractive than others. This can outdate some network architectures and fundamentally change the service requirements. Many Tier 2 carriers and CLECs (competitive local exchange carriers) have collapsed or gone bankrupt (or are be expected to) during the next few years. The market dynamics have changed dramatically.

Best practice is to utilize professional negotiators, which can be provided by bill auditors (e.g., ProfitLine, Teldata Control, Quantum Shift), IT consultancies (e.g., PwC, Accenture), or the consulting arms of IT advisory services (e.g., META Group). Most professional negotiation agreements are fixed price plus T&E. Real cost averages 0.5%-0.7% of real telco expenditure (over the life of an agreement), saving far more than they cost.

Bottom Line

Users should retain the services of professional telecommunications negotiating teams to achieve their goals at the bargaining table.

Business Impact: Seventy-five percent of enterprises leave 15%-20% of potential savings at the bargaining table because they are not utilizing experienced negotiating teams when bargaining with carriers for telecommunications services.