When was the last time you reviewed your existing IT contracts?

Remember that contract you signed a few years back?

Have things changed since?

Or those contracts that someone else signed, which you then inherited?

Over the years it's quite normal for requirements to drift away from what's in the contract. But what's less common is ensuring the **costs** that you're paying stay on track as your **usage** changes.

Too much drift can be dangerous

And usage change means if usage has gone up, has gone down, or if you're now buying something different.

So, this is one good reason to look at your existing contracts, and we haven't even talked about how *market* pricing may have changed since you signed.

However, before we go any further, we should address one common concern.

"But we're already in a contract with the supplier, we can't change anything mid-term"

Absolutely yes you can, and with the right approach you can get good results, and strengthen your position. It's a common misconception that signed contracts are untouchable. As proof, later on we show the last five mid-term savings we've achieved for clients.

So, IT and telecom contracts have many moving parts, and it's the pricing related ones we focus on in this article. (We'll come back to 'operational' vs 'legal' terms in another article).

Unlike other areas of IT, there are no standards when it comes to pricing mechanisms. They vary by the type of technology, which is fair enough, but they also vary widely between vendors. They may be unclear, buried or strewn throughout the paperwork, or even plain absent in some areas.
Below we review some of the charging approaches in three technology areas, and point out some of the 'gotcha's to be aware of.

Saas deals may have price terms which include per user, per feature, duration of usage, GB of storage and minimum revenue commitments

Look out for:

1. Terms which allow you to increase your service immediately but put the brakes if you want to decrease. Aka ‘up quick, down slow’.
2. Locking in what mix of users you need upfront e.g. 20 super users, 300 standard, 150 lite users. You are unlikely to know exactly how many of each type you’ll need, until the system goes live and you’ve been running for a while, but then you’re stuck
3. Costs – payments in advance or in arrears, when do charges start re go-live, costs for test environments (should be much less than production)

Mobiles deals – typical pricing terms include handset count, airtime by zone, roaming, data costs and pools, SMS, device management and handset insurance.

Look out for:

4. Co – terminus: every time you get a new phone, the contract clock restarts for that device. This creates a ragged edge to the contract, so you’re never ‘free’.
5. Cancelling a handset or SIM – early disconnection fees often apply during the minimum period
6. Technology fund: seems like free money and the convenience of a one stop shop. In reality it’s a loan that you can’t see the (high) interest rate on (in the form of inflated airtime costs). It’s a ‘use it or lose’ it by contract end, it locks you into buying handsets from the network provider only, prices are often top dollar, and a fund presents a management overhead on tracking. Finally, if you roll over at contract end, you’re still making ‘loan payments’ in the form of the inflated air time charges.

WAN / SDWAN deals: typical charging mechanisms include MRC’s monthly recurring charges, circuit connections / installation, data usage, burst charges

You may have a higher cost for your network due to three main reasons:

- Market competition has reduced prices – if you bought more than 2 years ago, you’re likely overpaying now
- Technology models have evolved, some are cheaper, and more widely available now
- You may not have got the best commercial agreement

Look out for:

7. Prices – BT supply directly or indirectly many customers and have reduced prices by up to 40% in the last few years– have these been fully passed on to you?
8. Is the cost of high service levels worth it e.g. 99.99999% - do you really need them that high, in every location?
9. Co-terminus on circuits – the same ‘raggedy edge’ issue as with mobiles, with the clock re-starting every time you commission a new circuit
10. Who defines in your contract when a new circuit is active & chargeable – you, or the supplier? This is as relevant in managed SDWAN as traditional MPLS WAN.

With this selection of 10 gotcha’s we’re only scratching the surface, there are many more. The news is that these issues are not uncommon, but they are addressable.

Recent Results

The outcomes from our last 5 mid term re-negotiations are shown below, all of which succeeded in saving money, and addressed several 'red flags' in the operational terms too.

Negotiation	Saving	Amount	Notes
Software - Supply Chain	16%	£60k	Free services also included ~ £50k
Dell - Laptop Supply	28%	£160k	Framework contract put in place
Telehouse - Data Centre	15%	£75k	More favourable exit terms agreed
Mobile Messaging Service	13%	£20k	Simple renegotiation on rates / volumes & 7 contract improvements
Software - Training management system	25%	£57k	Market competition. 20+ contract points won

Ungentlemanly Conduct?

If this is a concern from some clients before engaging on re-negotiations, there are a few facts to point out:-

- The deck is stacked in the vendors favour, with big sales teams and/or clients who may be in a rush
- We see countless examples of contracts with old or unclear pricing
- Some suppliers try to impose standard contracts which protect their position

So, there should be no reluctance to redress the balance, and evermore clients are doing just this, particularly with the current climate putting a sharper focus on costs.

A review can in fact be a positive exercise for both parties - updating old agreements is good housekeeping for suppliers too, and the exercise gives them an opportunity to present newer solutions, roadmaps and to discuss the future.

The process is methodical rather than aggressive, based on market benchmarking and knowing what's fair, all executed by expert practitioners who are used to doing this.

Which contracts make the best candidates for cost re-negotiation?

Our suggested selection criteria are ones where:

- *You spend £50k pa or more*
- *They've been unaddressed for 2 years or more (including auto-renewals)*
- *There's been a change in your usage / requirements since you signed*
- *You are still on standard terms (inc web-based T&C's)*
- *The supplier has new solutions available, or you think there is cost saving potential*

If one or more these criteria ring true, the more likely the scope for improvement.

Timescales, effort & ROI

Re-negotiations take one to six weeks, depending on complexity.
Assume a 10% to 20% savings target. So for a £200k contract, expect a £20k to £40k saving.
The negotiations preparation, execution and redrafting takes 1 to 5 man days of effort, stretched over the negotiation duration.

With the right approach, there is value to be unlocked and a stronger position to be gained.

We have a 100% success rate in improving client positions, if you'd like to explore your potential, we have an interactive webinar we'd be pleased to go through – do get in touch.

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