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Giving refunds new meaning

By Rob Varnon

FAIRFIELD — Scott Robins said his oldest son was heading to college and his two youngest were in private school when he quit his job to start his own company in 2009.

At first glance, the middle of a recession seems like a bad time to start a new business. But Robins' company, Virtual Procurement Systems, focuses on the area of business almost everyone is interested in these days: saving money.

After a career of selling technology and maintenance contracts, Robins said he's found companies are losing money inside the complex structure sales practices involving maintenance and warranty contracts and something called "deal registration."

Last year, his company recovered nearly $5 million for his clients, and while he didn't reveal his revenues, which come as a percentage of the recovered funds or in consulting fees, he expects VPS to top $25 million within four years.

Sitting in his conference room in a Kings Highway East second floor office, Robins explained how deals are done in the industry and why there is so much money to be recovered.

A company sees a need for a new application. An engineer at the company calls his salesman friend to get some numbers on cost. Then the company decides to move forward in the process and puts it out to bid and the engineers' sales buddy has the lowest price.

Everyone is happy, the engineer gets the guy he knows, the company has a low price, Robins said. Then the real negotiations start to happen. After finalizing the build out, the deal comes in at $100,000, Robins said. Procurement reviews the price with Gartner or another IT research company and sees it should be $80,000 and the salesman agrees. Then other managers take a swing at the price, and each one is given a price reduction all the way up to the chief investment officer, Robins said, indicating each executive looks like a hero throughout the process when the final price tag shows up at $49,999.

From the vendor's perspective, the seller rolled in a set of discounts he was getting from the manufacturer as well as selling the maintenance and warranty contracts, Robins explained. They can also operate on margins as high as 40 percent.

But the salesman also gave himself an advantage in securing the deal.

"The first thing the salesman did was register a deal with the manufacturer," Robins said. "This guarantees him as having the lowest price available in the market."

Manufacturers, including Dell and Lenovo, offer value-added resellers, or VARs, the opportunity to register deals with the companies. Both declined to comment.

Robins said the manufacturers guarantee the favored VAR will get something like a 15 percent discount, while competing VARs bidding on the contract will only get 10 percent.

Tarek Sobh, University of Bridgeport Dean of the Engineering School and a professor of computer engineering, said he wasn't aware of the practice of deal registration, but he wasn't surprised by it.

Sobh, who has developed his own patents and watched colleagues try to make businesses out of their own designs, said the industry is rife with expenses beyond development.

"The cost of doing business, especially in the IT business, is dramatically inflated," Sobh said.

Manufacturers and developers not only have the usual business costs, but also must buy things such as patent insurance, and depending on the space you're entering, the more expensive it can get.

Sobh said it's not atypical for a startup to see its patent infringed by a corporate giant, which will use the courts to drain money from the startup. Patent insurance helps cover the costs of that legal fight, he said. But that's an added expense. So the companies look for ways to cover those expenses through maintenance and warranties, which often bring in more money than the actual application.

As a buyer of technology, Sobh said he's lost lots of money on maintenance contracts he never used, so he was curious about Robins' business.

Robins said the recovery rarely involves any tough negotiations as everyone usually gets something out of it, whether it's goodwill and consideration for future projects, or continued maintenance work.

But he said on a few occasions he has discussed pulling computers out of production. He explained a company would have to return the outstanding maintenance money for computers that are no longer being used, as well as any warranty money.

Robins has won some loyal support from clients.

David B. Dillehunt, a CIO with a North Carolina health provider, said Robins was able to reduce his maintenance contract costs and ultimately save $3 million for the company.

Dan Carpenter, who works for a White Plains, N.Y.-based pharmaceutical company, said Robins helped him procure a system at 40 percent lower than the best price the company had been offered.

Robins said he wants clients to be comfortable with the results, so if they don't like it, they don't have to pay him.

"If you don't pay me, I won't work for you again," he said, adding, he's always been paid.

Since starting the business, he's hired 10 people and developed a pricing software program to calculate what people should pay.

Robins invested his own money in the company, and it's already self funding, he said.

But ultimately, his biggest investor is his wife.

"I called my wife and said, 'I just quit my job,' " he said. "Two kids in private school, another in college. She says, 'Does this mean we can have lunch?' She's a huge investor, a huge emotional investor."