

18 Criteria To Define Whether Your IT Business Is A Sought-After Authority Or A Replaceable Vendor

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Imagine this if you can. After a 900-year-old administrative error, it turns out that Doncaster, in Yorkshire, England, actually belongs to Scotland. Many moons ago, Doncaster was signed over to Scotland as per the Treaty of Durham after King David successfully stormed large areas of northern England.

But the success didn't last long. Only 21 years later, in 1157, Henry II reclaimed Doncaster back to England.

But good ol' Henry made a major earth-shattering cock-up. He didn't sign the necessary documents of the handover to England, so, strictly speaking, Doncaster still belongs to Scotland. All this may not be terribly important, but just as Doncaster wandered from England to Scotland, the same way wandered clients' buying habits from the replaceable vendor to the respected, recognised and sought-after industrial authority.

As buyers have been becoming more and more suspicious about sellers' real motives, the best sellers realise that the only way they can handle this new buyer behaviour is by changing their approaches to business development.

And while it's a pretty big change, it's necessary, especially if we consider that while in the pre-internet age buyers relied on salespeople for product/service information, today, in the internet age, buyers can obtain all the information they need without ever to meet salespeople.

Over the years, products/services have become much more complex and sophisticated, which also means that with every purchase, buyers take on higher levels of risk. Just look at some of the forms of risk below...

Six Purchase Risks

1. Performance risk: What if the purchase of the product/service fails to solve the problem?
2. Monetary risk: What if the purchased product/service causes other problems?
3. Time risk: What if the purchased product/service causes unnecessary downtime in production?
4. Opportunity risk: What if another product/service could have done a better job at solving the problem?
5. Psychological and social risk: What if, as a result of this product/service's failure to do the job, my colleagues, peers and superiors regard me as an idiot?
6. Physical risk: What if the purchased product/service causes physical harm to our people and/or damage to our equipment?

And as a result of increased risks, buyers know they have to be more careful at the purchasing stage.

So, what do they do?

They do their own web research. And to make sure their research doesn't get interrupted, they do their best to avoid salespeople like the plague. There are...

Eight Reasons Why Buyers Avoid Meeting Sellers...

1. Buyers are worried about meeting hyper-aggressive, hard-nosed, manipulative, “don't take no for an answer” salespeople
2. Buyers can obtain all the information they ever need
3. Buyers' plates are already full of mission-critical initiatives¹
4. Buyers are sick and tired of sales presentations
5. Buyers are missing the peer-level match
6. Buyers have lots of questions, but they know they can't get honest answers from salespeople
7. Buyers and sellers have opposing agendas
8. Buyers don't want to partner with sellers

So, what can IT companies do to overcome these eight obstacles?

Well, one option is to sell harder. Consider the terrain as an obstacle course, and duke it out with price-obsessed purchasing agents. They can mass-produce proposals in response to RFPs. They can attend bidding battle after bidding battle, hoping that, if their prices are low enough, their bids get accepted. Of course, the other option is to...

Transform Their IT Companies From Replaceable Vendors To Sought-After Authorities

Here we look at 18 specific transformation points. But don't let them overwhelm you. Just read them, pick one and work on it until it is fully integrated into your company's DNA.

1. You Don't Track Your People's Time On Timesheets

You realise that you have knowledge workers on your payroll, whose performance has nothing to do with the passage of time, but how effectively they apply their brainpower to create value for clients.

Why are timesheets still so popular?

Simple.

Because impressive and spectacular busy-ness is more appreciated in most companies than quiet, unceremonious achievement.

Manager A does her work quietly and her department consistently performs above expectations. What happens to her? Nothing. Her above-expectations performance becomes expected. And she never gets promoted or rewarded.

Manager B puts up a song and dance about how busy he is every day. That he comes to work early and leaves late. That he eats his lunch by his desk. That he's running around all day like a dickless dog.

The funny thing is that while manager A has a list of documented achievements, manager B has only a bulging task list.

And guess what? Most companies reward and promote manager B.

¹ According to the National Association of Professional Organizers (NAPO, Mount Laurel, NJ), the typical B2B buyer has some 59 hours of urgent work on her desk.

Timesheets make busy-ness rule.

In your company, make sure achievements rule.

So, what is the solution then? Well, project management.

While times sheets are reactive tools (like making birth control pills retroactive in an attempt to undo unwanted children), meticulously scrutinising what should and should not have been done, project management is a proactive tool, determining what should and should not be done. It's a tool for projection, anticipation and expectation.

2. You Have Value-Priced Project Agreements

Many IT companies argue that they need to know their costs before they can estimate prices. And this little detail shoves risk to buyers.

Imagine that you want to buy a car. The normal price is \$40,000, but there is an added cost of \$1,200.

While your car was assembled, the assembly hall's toiled blew up, and the car company has decided to split the repair cost among the people whose cars were built at that time.

What would you say to that?

The reality is that replaceable vendors bill for their materials and manual labour after the work is done.

Industrial authorities invoice their clients before applying associates' brainpower to help clients to achieve specific business objectives. Huge difference.

Your fee is not the function of the manual labour your people perform, but the value your clients receive from your help and support.

3. Any Change In The Scope Of Work Generates A Change Request

A few years ago at workshop, I saw a picture of yacht belonging to a general contractor. At the back of the yacht was the lifeboat. The lifeboat's name was "Original Contract" and the yacht's name was "Change Request".

With that yacht and lifeboat, the workshop presenter, Ron Baker of the Verasage Institute, demonstrated that most small projects tend to bloat in scope, and it's sellers' responsibility to track that bloating using change requests, as addenda to their original agreements, and make sure that every piece of "bloating" gets paid for.

Don't overdo it like many lawyers do, because that's just plain ridiculous, and don't do it because you have to exert more work. Do it because, the bloated project means higher value for your clients.

4. Your Company Has A Firm-Wide Leadership Programme

I can't remember now where I've read it, but the author posited in his book that the ultimate purpose of leadership is developing other leaders.

Some may say this is dangerous because these "developed" people may leave your company and all the cost of development has just gone down the toilet.

Good point.

But people very seldom leave companies. They leave companies in order to get away from

certain colleagues, peers and managers. They leave arseholes.

I'm sure over the years many people have left Microsoft or Google. But not because they hate Microsoft or Google, but because they can't stand working with certain individuals.

A good leadership programme helps all your people to become better leaders both in their professional and personal lives. As a result, you have better teams in your company, working more effectively and making higher profits for your company and higher incomes for yourself and your people.

5. You Offer 100% Money-Back Guarantee On Your Services

I know it sounds risky, but nowadays this is a major differentiating factor. And a justification factor for higher fees and prices. IT companies are busy bragging about how great they and their solutions are, but most charge unethical hourly rates to transfer basically 100% of the risk to their clients.

Earlier we looked at six types of risk buyers take on when buying technology. If you soften that sense of risk with a good guarantee, then you prove that you actually believe in your products/services.

And when you accept new clients if and only if they fit into your perfect client profile, then you have nothing to worry about. They expect great quality, but they are also human enough to discuss mishaps with you, so you can take the appropriate contingent action.

6. Each Project Begins With A Detailed Diagnostics And Scope Discussion

At this point, most IT companies present their fancy Powerpoint presentations about their people, their certifications and capabilities. They try to flabbergast their buyers with all the song and dance they put into their presentations. Sadly, this approach keeps them on their buyers' vendor lists, next to plumbers, chimney sweepers and janitors. But they have no chance in hell to get on their clients' the trusted advisor lists, next to the company's corporate lawyers, tax attorneys and physicians.

Presentations are one-way streets.

Diagnosis and scope development are collaborative. The more clients are involved, the more they appreciate the value they receive.

The diagnostics establishes the exact cause of the experienced symptoms, and then scope discussion defines what's included in the prescription to solve that root problem.

And after the diagnosis and the scope discussion, you offer a proposal NOT a quote.

What is the difference?

The former is a project proposal and the latter is a price quote.

The proposal focuses on the project with expected ROI. By contrast, the price quote focuses on the price.

Bottom feeder clients love collecting price quotes and set bidders at each other's throats. Top-notch clients receive proposals.

And one more point here. The proposal, a misnomer though the name might be, is a written summary of a verbal agreement. A price quote is the equivalent of blind man's searching for a black cat in a dark room. The chance of catching it is virtually zero.

7. You Price Your Work In Advance, And Invoice Only For Work That Clients Specifically Requested

When is a product/service most valuable? Well, before it's delivered. Then why do so many IT companies bill for their completed work in arrears and spend an awful lot of time and money chasing unpaid bills? That's typical vendor practice.

Industrial authorities agree with their clients on the scopes of their projects, and then invoice them for the work to be done in advance.

The advance payment makes sure that clients have a skin in their own successes. Otherwise they would cancel projects left right and centre.

Sellers offer their commitments to their projects' successes through their money-back guarantees. Buyers offer their commitments through their advance payments.

8. You Have A Chief Value Officer (CVO) Or Pricing Council In Your Company

In vendor type IT companies, it's the salespeople who price their projects. And in many cases, they price them low, so they can win.

And that's a huge mistake.

Every project should be presented to the pricing council of your company, and the council, led by the Chief Value Officer (CVO), should price engagements.

Here is the problem. Even if the project leader is an excellent pricer, she has a relationship with the client, and that can introduce emotional obstacles in the pricing process.

"I gave her a good price because her daughter sits next to mine in school."

Yes, it's hard to separate the two, but the pricing council and the CVO are not emotionally involved, so they can stick to the prices.

The other purpose of the CVO and the pricing council is to monitor projects to make sure clients are getting the value they've paid for.

9. Your Fees And Prices Independent Of The Time It Takes To Do The Work

When I renewed my Canadian passport, it took about one month. But the total processing time of a passport, that is, the time a person actually works on it, is only 19 minutes.

When your work time is in synch with your revenue, you'd better hire idiots who work very ineffectively, so you can charge more to clients. But that is also a self-imposed prison.

So, instead of pricing the energy your people exert to work, price your work based on the value your clients derive from your work.

Yes, we all learnt from Karl Marx that value of a product/service is the amount of social labour amassed in it, but based on what I experienced while growing up in Marxist-Leninist Hungary (27 long years), I can confidently say that good ol' Karl was an idiot, and instead of economics, he should have spent his life learning about chimney-sweeping or canoe-carving. He would have caused less damage to the world.

I know, there are many people who still regard him as one of the greatest economists who ever lived, but they never lived in communism, which is, undoubtedly, one of the most horrendous curses of both the known and unknown universe.

10. Your Fees And Prices Vary From Client to Client

That is, you don't price products/services, but price clients. And here is a correction. I would even stop using products because every product is a subset of a service, and experience. You can see this difference when you read about how people have been taken for a ride when their computers died and sellers did everything they could to dodge responsibility.

And what amazing service Apple provides for Apple computer owners.

Yes, and XYZ brand PC-based laptop is cheaper than a MacBook Pro, but that low price becomes bloody expensive when you need any kind of after-sales service.

The purchase of a product always includes more than the product itself. And that extra creates the price difference.

Or the other example is plane tickets. Talk to 100 passengers as you're boarding a plane the next time, and it turns out, they all paid different prices on the same flight, even in the same class.

For example, when a client wants quick access to you on weekends too, then charge a lot more than you charge another client who wants to have access to you only during office hours Monday to Friday.

11. Your Prices Consider Clients' Perceived Value Of Your Services

As we know, refuting Karl Marx's lunacy, value is subjective and contextual.

A bottle of water is just a bottle of water, but the contexts are...

1. A seriously dehydrated person in the middle of the Gobi Desert.
2. A well-hydrated person who wants to bathe his dog.

Now, which one do you think is willing to pay more for your bottle of water?

Value is defined by the client's context, and you decide who you sell your water to.

A hard drive is the same. The contexts are...

1. A security consulting firm with stringent regulations on data storage
2. A one-person graphics designer in her spare bedroom

The graphics designer buys hard drive and that's all. That's a product.

The security consultant firm's hard drive installation has to comply with several regulations. The firm buys error-free installation that complies with all the regulations. That's a valuable service.

12. You Have Salaried Employees In Your Company

IT vendors tend to focus on cutting costs, so they employ a few hourly labourers, commissioned sales mercenaries and lots of subcontractors.

IT companies that operate as knowledge organisations, have only salaried employees. They too have some subcontractors, but all core competencies are performed by salaried employees.

These companies know that value-creation has nothing to do with the passage of time and performing hourly labour.

And what of commissions?

Well, here is my reason against it. Commissioned salespeople are motivated by the money they make for themselves. So, first they serve themselves, their employers and only then their clients. And clients know that, and don't want to meet them. What's the point in meeting someone who

has no subject matter expertise and can't answer "deep" questions?

On the top of all that, they are pushy and manipulative.

13. You Run A Results Only Work Environment (ROWE)

Most IT companies are as busy-ness- and activity-based Gulag-style labour camps.

The ROWE concept was developed by Cali Ressler and Jody Thompson a good few years ago, and they implemented it at Best Buy's head office. The idea is that people can do their work wherever, whenever they want to do it, as long as they do it at a pre-agreed quality level and within a deadline.

It focuses on people's accomplishments (outputs) not their activities (inputs).

The problem is that since most mid-managers got their positions as a result of political manoeuvring, artful arse-kissing and scientific boot-licking, they see ROWE as a threat to their phony positions, and bloated compensation packages. And it is.

But for value-based IT companies this is the only way to go.

Stress-free and liberated (from managerial stupidity²) employees far out-perform enslaved ones. People step up and take more responsibility. They actually start enjoying their work.

All in all, while the traditional work environment treats people as children who have to be micromanaged around the clock, ROWE treats them as responsible adults who love facing the challenge of interesting work and love surmounting those challenges.

Using Douglas McGregor's (American social psychologist) categorisation, people fall into either of two major behavioural categories:

Theory X: People are inherently lazy, dishonest, dodge responsibilities, dislike work, thus they must be tightly controlled, coerced, threatened and punished. Go easy on rewards because people get complacent and start expecting rewards even if they don't deserve them. People have little ambition, expect maximum work security and wages for minimum contribution, commitment and accountability. They prefer to be directed, for they are too lazy and stupid to think for themselves.

Theory Y: People inherently like challenge and responsibility. People naturally do their best in every situation. They are innovative and proud of their achievements. They can practise self-direction and self-control. People are willing to learn new skills, are creative and capable of thinking for themselves.

What happens in many billable hour-obsessed and timesheet-crazed IT companies is that, unbeknownst to management, they nurture Theory X behaviour. Many people try to rig the system to shirk responsibility, and instead of doing real value-creating work, they fiddle with their timesheets and fudge their hourly billings. It has nasty consequences both for the company and its clients. Although it's a goldmine for low- and non-performing employees.

The ROWE environment nurtures Theory Y behaviour. And realistically, the really talented people are magnetically attracted to Theory Y work environments. They have pride in their work and want to shine as professionals. They also know that in a Theory X, busy-ness-based work environment, they could merely exist and survive the daily drudgery between weekends. And if they tried to shine, the local bullies (organisational dead wood) would "take care" of their

² Peter Drucker: "90% of what we call 'management' consists of making it difficult for people to get things done."

ambitions.

14. You Have A Lean And Mean Business Development Team

Most IT companies have grotesquely bloated and morbidly antagonistic sales and marketing departments. The gap between sales- and marketing departments is legendary. Therefore managing them feels like herding cats.

Now, I've never herded cats, but sometimes in the early 80s, at a rock festival, I entered a geese herding contest, and came second. While most people tried to herd their geese from the back, I led them from the front. And with the right tricks, they followed me. But driving from behind almost always ended in a disaster.

Cohesive business development teams are led (pulled) from the front. Fragmented sales- and marketing departments are driven (pushed) from the back. Leading any team is a bit of an uphill work, and we know that pulling things uphill is a lot easier than pushing them.

IT companies are obsessed with hiring sales superstars and Ivy League MBAs with marketing degrees., and then setting them at each other's throats with idiotic incentives, like sales commissions or other incentives, based on short-tem individual performance.

At the same time the company's brochure sings the praises of teamwork and dedication to clients. Well, individual compensation destroys teamwork, and short-term compensation of any kind undermines both the client's and the company's long-term success.

15. You Align Your Key Success Indicators With The Client's Success Indicators

Sales quotas are not success indicators and have nothing to do with clients' successes.

I'm amazed how many realtors believe that their main differentiating point is how many different awards they have won for their sales performance.

As a buyer, all I can see is that he is a good salesman who can win awards by the bushels, but I have no idea how much of a real estate expert he is. But, realtors' being some of the nastiest, slimiest salespeople – I guess, neck and neck with car salespeople – real estate knowledge may not even matter.

Most success indicators of most IT companies are reflective, that is, looking at them, people can reflect on what's happened in the past. It's like driving your car forward while staring at the rear view mirror.

Some predictive indicators come from clients. For instance, most clients like short turnaround time and continual communication.

So, look at predictive indicators like...

- Number of new 1-to-1 communications opened with new self-qualified prospects
- Number of proposals submitted
- Frequency and quality of communication
- Client feedback
- Progress in personal and professional development curriculum³

³ Every single team members must have a documented and up-to-date personal and professional development

- Size of waiting list

Knowing these pieces of data gives you a useful picture of what is likely to happen. They tell you when you're headed towards the iceberg. The balance sheet nonchalantly announces that you've already hit the iceberg, you're in deep shit and you'd better do something or you die. Nice. But also useless. That's traditional accounting for you. Yet, in most IT companies, accountants rule the land.

16. Debrief Each Project Using AAR

The After Action Review (AAR) was developed by the US Army, and now it's used all over the world to debrief the ultimate projects, military missions. Why ultimate? Because small mistakes can kill lots of people.

The AAR has four parts...

1. What was supposed to happen?
2. What did actually happen (The ground truth)?
3. What were the positive and negative factors?
4. What have we learnt and how can we do better next time?

What makes AAR's hard to adopt in the world of commerce is that there are some rules that some ego-maniac "my dick is bigger than yours" type executives find impossible to digest and live by.

For instance, there are no ranks, no blaming, no finger-pointing. Try to take this concept into a boardroom, and see how long you can keep your job.

Nevertheless, the AAR is still the most effective way of debriefing projects, and it's just a matter of taming politics in companies.

17. You Acquire Clients Based On Your Perfect Client Profile

Your market is pretty much about 0.5% to 2% of the best, and the other 98% to 99.5% of the rest. The idea of the perfect client concept is that your clients should come out of the top 0.5-2%. They are in serious growth mode (increase net profit per person), as opposed to being in enlargement mode (increase gross revenue and headcount).

Hint: The tiny little Koenigsegg⁴ beats the behemoth General Motors on growth (net profit per employee), although GM beats Koenigsegg on enlargement (gross revenue and headcount).

But as the saying goes, it's not what you make, but what you actually keep that matters.

The price-obsessed unwashed masses can help you to make good, even outstanding, gross revenue. But only the top of the pile, the value-focused vital few, can help you to make sexy profits.

Perfect clients pay on time, they have challenging projects and are pressure-free⁵ to work with.

[curriculum](#)

⁴ <http://www.koenigsegg.com> Swedish car maker of superhot and super-exclusive new supercars, created by Christian von Koenigsegg.

⁵ The challenge comes from the work itself. Pressure comes from idiotic people. And the worst they are at handling their own pressures or the more pressure they tolerate in their own lives from others, the more pressure they try to put on others.

They treat you as a respected expert.

And bad clients are the opposite.

They pay you late, haggle on your fees, have boring projects, pressurise you and treat you as a replaceable vendor. Their favourite phrase is...

"Next time you have to give us a better price or we have to find someone else."

Let them find someone else. Let them find a bottom feeder that matches their own bottom feeder character. It will be a match made in hell, but now you're not a part of it. Actually make it easy on them to find someone else by firing their stingy arses.

18. You Nurture Innovation In Your Company

Google offers 20% "Google time" for its employees, when they can do whatever the hell they want to do. And from that discretionary time came Gmail, Google Docs, Google Earth and many other innovative services.

I've heard about an accounting firm in the UK that pays for their associates' spare time activities, even if it is skydiving, painting-, dance- or music lessons.

Why?

Because leaders know that as a result of learning those new skills, those accountants are sharpening their brainpower, which is not a bad idea for accountants.

And those sharp-minded accountants charge extra-super-premium fees for their work. And they are not only getting them but have massive waiting lists. Waiting lists in a world where most accountants have to chase business one client after the other.

Google's leaders and the leaders of that accounting firm knew that providing a culture of "daily grind" wouldn't be innovative enough to thrive in the 21st century economy.

Sadly that's all what most IT companies provide to their employees: A daily grind from futility to oblivion with occasional stops at tedium and counter productivity.

The majority of the baby boomer generation put up with "daily grind" type work, but the post-boomer generation doesn't tolerate that. So, if you want your company to attract quality people, then you have to create a conducive and innovative work environment high on challenge (sexy mind-stretching work) and void of pressure (managerial tyranny).

Summary

So, we've looked at how to improve clients' experience with your company.

As David Maister points out in his study, published in his book in 2001, *Practice What You Preach: What Managers Must Do To Create A High Achieving Culture*, the numbers below indicate the impact each component can make on the overall financial performance of your company.

Rate your business in each area on a scale of 1 to 6. The increase of only one notch (from 3 to 4 or from 5 to 6) in each category can increase your firm's financial performance by the indicated percentage.

So, if your business rates at 3 at "high standards", and you push it up to 4, then you can increase your firm's overall financial performance by 40.4%.

And when you look at this a bit closer, it's not too shabby, isn't it?



About The Author



Since 1998, after a 14-year industrial stint as an electronics/computer engineer, project manager and technical buyer, Tom "Bald Dog" Varjan has been working with privately held information technology companies to develop high-leverage client acquisition systems and low-headcount and cohesive business development teams to market and sell complex, high-ticket and hard-to-explain IT solutions to the cream of the crop of their target markets.

For Tom's free white paper, "More Brain Less Brawn: 7 Insider Strategies To Turn Fungible IT Vendors Into Recognised, Respected And Sought-After IT Experts", go to <http://www.varjan.com>

Notice

Here and there you may find words in this document that are spelt differently from your way of spelling. Words like colour, honour, favour, realise, which you'd spell as color, honor, favor and realize.

Being educated in the UK, I speak and write in British English, the so-called Queen's English, which is a bit different from English used in other countries.

However, there may well be some genuine typos and spelling errors, so feel free to let me know. Thank you and happy reading.

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