8 Ways IT Companies Can Kill Themselves By Responding To RFPs

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Blog entry

The old Chinese proverb says, "Victory goes to the one with superior forces at the point of contact." In the movie *Braveheart*, at the battle of Stirling, the Scots used very long spears to receive the English army's heavy horse attack. That was the first and most powerful step of attack of the English army.

Since the Scots successfully annihilated the heavy horses, the English army was basically defeated on impact, and the rest of the battle was "mere" formality. Well, all right. A bit more than that.

What that means in business development is that you have to create a powerful point of impact to meet buyers the first time. But, unlike the Scots in the movie, you may want to keep your buyers alive, because this impact will define the fate of your whole sales process.

This first impact can go two ways and that will define the outcome.

One option is that your buyer meets a street peddler representing a fungible vendor type company trying to hawk some lukewarm commodities.

The other option is that your buyer meets a respected expert representing an industrial authority type company offering some unique products/services.

And whatever the government says, when the connection between buyer and seller is the RFP process and the bidding war, that seller gets pigeonholed as a huckster, representing a fungible vendor type company peddling some ho-hum commodities.

From then on, even if the seller gets the buyer's business, that sales will be seriously discounted and will suffer from other shortcomings for the seller.

And by the time the sale is concluded, the seller may pee himself in delight over how much revenue the company has generated, but when he looks at the net profit on that sale, he may need a bucket of Prozac[1] to prevent him from committing suicide.

And since the first live impacts are the first personal meetings with buyers, it's important to design first meetings such that they show sellers in the best light with their best feet forward.

Sadly, the RFP (**R**eal **F**ools **P**articipate) process achieves the exact opposite. It presents sellers in dim candle light with their crude prosthetic legs and crutches in clear view.

This is such a huge disadvantage for sellers, that I don't even understand why only so few sellers commit suicide at this point. The game is so badly lost that it's almost impossible to describe.

So, if you want to increase the rate at which qualified prospects become paying clients, this article may be a good starting point.

When buyers issue RFPs, you too may be tempted to drop everything you're doing before your colleagues could say Jemima Puddle Duck, and start working on crafting a proposal for this

[1] Very popular and bloody strong antidepressant drug. Adverse effects include sexual dysfunction, tendency for suicide and violence. Recent studies reveal over 50,000 deaths related to Prozac and estimate that between 7% and 10\% of individuals exposed to Prozac will have some kind of adverse reaction. (The Boston Globe; "As drug gets remade, concerns about suicides surface"; Leah R. Garnett, Globe Staff; May 7, 2000; Copyright 2000)

brand new RFP.

But in this chaos, not only your productivity all of a sudden comes to a grinding halt and you start doing more unpaid work, you also start destroying your firm's credibility, reputation and brand.

And even if you get some proverbial "latrine-duty" work, the margins will be thinner than a piece of onion skin after the latest celebrity diet.

Way #1: RFP opportunities are of low quality

They come from the worst segment of your market: The pathologically cost-conscious bottom-feeders.

They are those bottom-drawer buyers that think they know it all, and all they need is some pairs of hands to do their biddings. Those buyers think they have diagnosed the situation and now have the right solution. Now they just need some low-paid implementers to implement the solution as per buyers' specifications.

Since they need implementers, these buyers focus and want to pay for the "manual labour" aspect of your work. After all, since they've come up with the solution, they regard your contribution as proverbial ditch-digging that any minimum-wage grunt can do even being blind, drunk and stoned out of his mind.

From proper clients, many of these projects could be sexy, but low-end clients turn even interesting projects into the most mundane drudgery.

Way #2: RFP buyers unanimously set the rules

Yes, and sellers have no say in it whatsoever.

My idea of capitalism is a fair value exchange between consenting adults.

Here the buyer treats the seller as a child who has to be tightly ruled, otherwise she may misbehave. And although the seller treats the buyer as an adult, but expects full obedience from him.

And here is the kick. Sellers can't diagnose buyers' problems, so, more often than not, sellers are forced to offer solutions based on the symptoms buyer have self-diagnosed.

And buyers' self-diagnoses are almost always based on what buyers want not what they really need.

For instance, the patient knows that he wants some painkillers. But the doctor knows that the patient needs leg amputation due to advanced gangrene.

In most cases, by the time IT companies are willing to call in external help, they have advanced gangrene, but they still insist on receiving painkillers.

So, they issue RFPs in search of the cheapest painkillers.

Let's just think about it.

We have Post-It notes because Spencer Fry didn't respond to RFPs.

We have the personal computer because Steven Jobs and Steve Wozniak didn't respond to RFPs.

We have the Ford Mustang because Lee Iacoca didn't respond to RFPs.

We have Windows because Bill Gates didn't respond to RFPs.

We have cars at affordable prices because Henry Ford didn't respond to RFPs. (And didn't listen to the market that wanted faster horses.)

These people and their products have become blazingly successful, because they ignored what the market wanted, and created what the market needed.

By responding RFPs, buyers set the rules, and sellers subserviently obey them. But that doesn't lead to anywhere good.

Way #3: RFPs water down your differentiation

Unless you run a business in which there is no competition, you'd better keep an eye on how to differentiate your business from your competitors. This is fine and dandy, but this differentiation goes down the toilet when you respond to RFPs.

RFPs almost specifically ask you to take out every shred of differentiation from your proposal by giving very specific instructions on how to respond to the RFP.

In your network design and development projects, you may offer top-drawer Cisco switches and routers, installed by Cisco-certified technicians, but it's all irrelevant, because of your closest competitors use Chinese switches and routers, installed by minimum-wage ex-cons, boozers and dopeheads, can be cheaper than your offer, so in a bidding war you have a snowball's chance in hell to win the contract.

Without any differentiation, you will compete with a bunch of low-priced bottom-feeders, that don't mind using switch-and-bait tactics once they've secured projects at competitive(ly) low prices.

And since for most RFP buyers the price is the most important criterion, you're out.

Way #4: RFPs eat up the margins on your projects

Let's assume that you win the bidding war and have a gig. You've won the gig by coming in way under your normal prices. Then during projects, even more of your margin gets eaten away, because now buyers tend to click over scope creep mode.

> **"Mr. Seller, after establishing such a mouth-wateringly high price for you, let's take a closer look at what we're getting for our huge pile of money. Let's revisit the scope of the project and make sure we both sing out of the same song sheet and in the same key."**

So, by this time the price is fixed, so buyers start adding various bits and bobs to the project.

> **"Mr. Seller. We'd appreciate if you changed the originally**

> **proposed D-Link DI-604 routers to Cisco SOHO91s. I think it's a reasonable request, isn't it?"**

Well, the D-Link DI-604 costs $45, but the Cisco SOHO91 costs $250.

A few more requests from the buyer and you're paying for the project out of your kids' educational fund.

Way #5: RFPs can communicate trouble to your people

When your company lives from RFP to RFP, your people get the message that your company is hanging in for dear life by its fingernails, and the end can be pretty near.

They also know that by now your company is so low in the industrial food chain, that the only way to find clients is by giving insane discounts. And they know from previous – mainly corporate – experience that every penny of discount that the company offers to clients comes out of their paycheques, while executives keep receiving full perks and bonuses no matter how poorly the company performs.

So, what happens? Well, the best people leave first.

And who stays? People who have no hope to find other jobs, because they are not exactly on the tops of their professions.

And now we have a company stuffed with crappy RFP clients and an awful to mediocre work force. And the company has about as much hope for survival as a mouse in a cat sanctuary.

Way #6: RFP work is the proverbial one-night stand

You may win the project, but no matter how great of a job you do, you won't just automatically get the next gig. You have to go back to square zero, and "fight" for the next gig, as if you hadn't worked together before.

RFP clients have no loyalty, except loyalty to the lowest price.

For this reason, you can't establish relationships with RFP buyers. Well, in most cases, you can't meet them in person anyway. You communicate with flunkies (all right, purchasing agents) whose #1 incentive is to preserve budget at any cost.

And purchasing agents know that keeping sellers at arm's length allows them to abuse sellers to their hearts' content and play with them as cats play with mice before killing them.

For this reason, they make sure that there is no personal interaction, so not even a shred of emotion can seep into the highly choreographed purchasing process.

Way #7: RFPs indicate that your company is not worth buying

This puppy is related to the innate value of the business, and whether or not it can be sold at all.

Your ability to sell your company depends on its innate capability of acquiring clients. It means that your company has to have a highly automated client acquisition system, and it doesn't have

to depend on armies of salespeople to chase buyers one by painstakingly one.

The problem is that the RFP process can't be automated. Not even an inch. It's a full-tilt manual labour drudgery, requiring several people investing significant amount of their times and efforts.

Now imagine someone buys this company. There is one other piece of reality. When companies exchange ownership, the best people leave the company.

After all, with the new owners, a new culture is coming, and those people were attracted to the company by its culture. The culture those people had created that are now selling the company.

And let's remember Peter Drucker's words...

> **"Knowledge workers are volunteers who own the means of their performance, and whether or not they remain with any one company is totally volitional. Just like most investors, they will go where they can earn a fair economic return-measured in wages, fringe benefits, and other pecuniary rewards-as well as where they are well treated and respected, the psychological return. In the knowledge society, the most probable assumption for organisations - and certainly the assumption on which they have to conduct their affairs - is that they need knowledge workers far more than knowledge workers need them."**

The best people quit and they either go to the competition or set up shop for themselves and become the competition.

No, who the cricket would buy a company whose most important people quit at the moment of purchase? No one.

And this is a generous assumption, considering that when a company starts living on RFP life support, the best people know that management has screwed things up, and they are likely to desert the sinking ship before it runs aground in the ocean of the free market and becomes a shipwreck.

Way #8: RFP bidding processes are badly stacked against sellers

We've all heard the phrase, "What's in Vegas, stays in Vegas." And in the 1995 drama, Casino, we could see how seriously people took that phrase.

Yes, people could die, if they tried to take something out of Vegas. Well, just consider how many people got murdered in the movie.

Maybe not so harshly, but RFP processes are stacked against sellers almost as much as slot machines and other casino services are stacked against players.

Both in the case of casinos and RFPs, the real winning comes from not participating.

The other stack against sellers is that by the time the RFP comes out, buyers are deep in the decision-making process. They know exactly what they want and boiled it all down to a commodity that any Tom, Dick and Harry can provide. So, now they set up Tom, Dick and Harry in a reverse auction to drive the price to the ground and hire the lowest bidder.

You may have high-calibre content, but at this stage it's too late for content. No one reads

content any more. Price rules the land.

Yet another stack against sellers is the fact that many RFPs are not about buying even a sausage, but rather legally probing the market for suckers that are willing to work for chicken feed.

Then noting the suckers' contact information, so when the next project rolls around, sellers can send out RFPs to the cheapest suckers.

And one more stack against sellers is that they have to enter RFPs naked while buyers wear thick coats over three layers of undershirts and wetsuits, covered by chest waders.

That is, in your proposal you have to reveal all the minute details about your offer, while buyers stay carefully hidden in the shadows revealing about themselves as little as humanly possible.

And as we know from the Miranda warning[2] and its variations police forces all over the civilised world use, anything sellers say can be used against them by buyers.

Sellers are expected to detail their project team members' positions, education, achievements, sex lives, etc. In the proposals, all sellers know about buyers is the name of their procurement flunkies.

So What Can Be Done

Now we know that and we'd better remember that RFP can easily lead to RIP. So, for your health's sake, you'd better stay away from the whole competitive bidding madness.

Buyers buy the way sell.

It means that buyers that recruit their IT suppliers through RFPs, sell their own products/services through RFPs. It means they are the bottom feeders of their own industries.

Yes, doing business with them can give you some short-term cash flow and adrenaline rush, but in the long-run your business gets associated with these industrial lowlifes.

And once you become the proverbial Wal-Mart of your industry, it's as good as impossible to become the proverbial Harrods, the hyper-upmarket department store in London, UK.

Yes, Wal-Mart can brag that it's the world's largest department store chain with the most employees and the highest gross sales. What Harrods has is significantly higher net profit per employee.

And personally, I take high net profit per employee over high gross revenue on any day.

What about you?

So, don't just sell harder. Market smarter and your business will be better off for it.

About The Author

[2] "You have the right to remain silent, and that anything you say will be used against you in court of law. Etc.

Since 1998, after a 16-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 and independent IT professionals to market and sell their complex, high-ticket and hard-to-explain IT solutions to high-end, sophisticated clients.

For Tom's free white paper, "More Brain Less Brawn: High-Leverage Client Acquisition Strategies For Privately Held IT Companies In The Knowledge-Based Economy", go to http://www.varjan.com

Additional Knowledge Products to Build Your IT Business

Here are some knowledge products on business development for building your premium-calibre IT business. It's especially for privately held "entrepreneurial" IT companies and solo IT professionals.

These products are sort of workbooks. They explain what is what, then walk you through the "how to..." part of the process. As you read the books, you do the exercises, and by the time you finish reading, all the relevant bits and bobs are in front of you on paper applied to your own unique situation. For this reason, the materials are not long but rather dense.

I hope you find them valuable.

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Perfect Client Pyramid.

Yes, these top-drawer companies are hard to "conquer", but in the long-run, they offer the highest return on your marketing investment. But before contacting them, you have to define them in your business. And this is what this knowledge product does. Perfect IT Client Profile Development Toolkit