6 Ways IT Companies Leave Money On The Table

Tomicide Solutions

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Blog entry

Did you know that every year some 100 people choke to death on ballpoint pens?

I mention this nipple-piercingly interesting fact because many IT companies would be better off swallowing all their pens and pencils and to avoid the risk of designing and documenting policies that force them to leave money on the table.

In this article, I'd like to point out six issues that end with being unable to charge according to the value you bring to your clients' tables.

They are...

1. Do free presentations.
2. Allow clients to have their IT all over the place
3. Fail to get their advice implemented
4. Fail to use value-pricing
5. Fail to use powerful guarantees
6. Fail to improve project management

Do Free Presentations

As the saying goes, prognosis without a diagnosis is malpractice. And I buy that. I also buy the idea, actually, highly recommend it, that we have to do extensive diagnosis of buyers' situations to demonstrate our capabilities, instead of doing idiotic dog and pony show presentations to assert them.

The problem is that many IT professionals shy away from diagnosis because good diagnosis should be business diagnosis NOT just technical diagnosis. But many IT professionals are not business savvy. They speak only server room English.

So, even if business development folks manage to connect with boardroom-calibre people, as soon as these techies open their mouths and start talking about bits, bytes and Gigaherz, it's over.

Boardroom dwellers, who are ignorant of bits and bytes, ask those poor saps to take their issues to IT managers or purchasing agents. And at that moment, it's all over.

It managers love listening to new ideas but can't authorise projects. Purchasing managers can't authorise projects either and they don't even enjoy listening to bits and bytes.

So, back to diagnosis. During the diagnosis, which you do jointly with all key decision-makers, you demonstrate your abilities and show your personality, so buyers can make three vital decisions:

1. Whether or not they want to solve the specified problems or seize those opportunities.
2. Whether or not they require external help to pull it off.
3. Whether or not they require your help specifically.

By the time you finish your diagnosis, they can answer these questions without pestering you for discounts or references.

Now people may say, it takes some serious time to do all that diagnosis.

Yes, it does. But you do it in close collaboration with buyers.

What is the alternative? Writing proposals with half a million revisions. Preparing for presentations and then more presentations. Then discussions after discussions. And you do all that in isolation from buyers.

Even if you manage to prove your technical capabilities, they still don't know your character. Many IT professionals are like Dr. House. Incredible geniuses with rotten personalities.

And while hospital staff accommodated Dr. House's idiosyncrasies in the TV series, in real life, based on first-hand experience in the medical field, Dr. House-like curmudgeons are either unemployed or are stashed away in some dark corners where they can't cause emotional damage to patients.

So, since you have to do some pre-project work anyway, you might as well do diagnosis with a rough prognosis outline. And if buyers want more, they have to pay for the implementation of the prognosis.

Also, let's remember that while working together during the diagnosis phase, you observe the key people as well and decide whether or not you would do full-blown projects with them. This is an effective filter.

Remedy: Instead of free presentations, do general physician-level diagnosis for free. Then, after being hired, do a hospital-level diagnosis and then the prognosis.

Allow Clients To Have Their IT All Over The Place

Imagine you get a new potential client. You discuss the details of your help to shake up and shape up the client's system, and then you arrive at backing up the system.

The client tells you that the secretary does back-up every Friday onto a handful of flash drives, which she keeps at home.

Then you suggest to the buyer that your firm can take care of the back-up process in a professional manner, and your offer gets turned down. What do you do?

Most IT sellers would sign up those clients without any stipulations in their contracts, hoping one day they could lay their paws on data back-up too.

So, now you have an agreement, the buyer is your client. Then the client's server has a meltdown. But not only that, but the secretary's purse has been snatched in the mall and all the flash drives are gone missing.

Now what?

Although it's in the agreement that you don't touch back-up issues, the client expects you to perform a miracle and recover the data... from...

And if you decline the request, the client starts poking holes on your other services and puts you on notice for replacement.

And all that's because you accepted a client who had failed to put his IT house in order.

I think you're better off without such clients. No matter how great your work is, their operation is so messed up that not even your great services can balance it out.

It's like pouring a few drops of black paint into a bucket of white paint. It turns grey. And no matter how much white paint you put into the bucket, the paint remains grey... forever.

Smart clients want to consolidate their IT matters. They all try to find one company that can take care of everything even if those companies use external experts to handle certain aspects of their clients' IT.

When you see buyers that have their IT all over the place, there is a good chance that each aspect of IT is handed over to the cheapest specialists. And that should be a warning sign for you to run very far and very fast.

Remedy: If possible and your company has the expertise, require clients to consolidate all their IT under your management.

Fail To Get Their Advice Implemented

By definition, as an external entity for your clients, you can't demand implementation even of your best ideas. Clients have to do it on their own volition.

And everything that doesn't get implemented and results in some negative outcomes eventually comes back to you. Just think about it. In The United States personal fitness trainers get sued left, right and centre for incompetence because their clients haven't lost their desired amount weight. But when you look closer, those clients are famous for cancelling their workouts and stuffing their faces with fattening foods.

Every time a client refuses to implement your recommendation, document what exactly you've recommended and then have your client sign it. When the client reads something like...

> **"It is my sole decision to overrule the ABC IT Company's recommendations on backing up our systems. Therefore, I take sole responsibility for any problems (data loss, lost business, etc.) resulting from our inadequate in-house system backup.**
>
> **I understand that any backup-related problem is outside the scope of our work with ABC IT Company, and if we need their help in this area, it requires a new agreement with new fees..."**

...that often opens their eyes.

I also suggest my clients that they don't take such clients. They can be too problematic down the road, and no one needs those problems.

Remedy: Work with clients collaboratively to make sure your advice is fully implemented.

Fail To Use Value-Pricing

Let's face it, most IT companies still sell IT products and services as boxes and manual labour

for competitive hourly rates.

Some quote flat fees, but they are based on time and materials, and even if they cite flat fees at the beginning of their projects, they try to amend those fees at the end of the project because something took longer than they estimated.

So, clients pay because inept IT sellers can't estimate how much time it takes them to do something that they've done thousands of times.

Besides, time-based pricing is amateurish because it's financially limiting to sellers and cost-prohibitive to clients because now sellers' goal is to sell more time chunks even if those chunks don't contribute value to clients.

IT companies that do value pricing don't sell boxes and better technology. They don't sell server room value. Oh, no.

They sell better business, that is, boardroom value. They speak boardroom English, communicate with and get hired by boardroom dwellers.

Yes, later they work with the technical people, but their relationships are based on business improvement not on technology improvement. They look at technical improvements as means to business improvements.

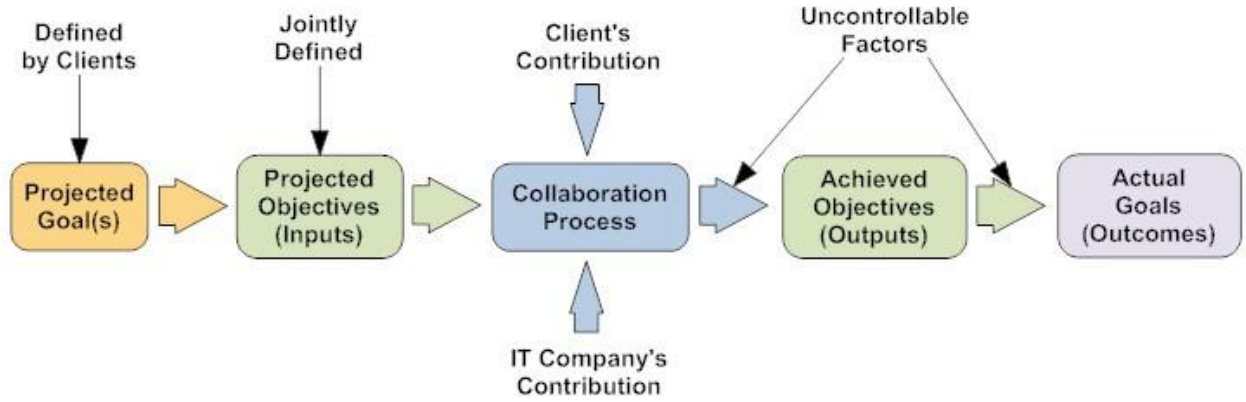
Remedy: Re-work your pricing strategy in such a way that your fees are based on the value that you bring to your clients' tables.

Fail To Use Powerful Guarantees

The other side of the premium coin, one is value pricing, is kick-arse guarantees. Buyers are willing to pay premium for reduced risk. Most buyers are risk-allergic, and they don't want to take unnecessary risks.

They know certain outcomes are out of their IT folks' control, and they don't demand impossible guarantees. If they do, you should fire them.

And you should NEVER guarantee results. You can't control results any more than the weather.



When talking about guarantees, we have to discuss some details. First let's look at the consulting process:

In projects, we have both goals and objectives. Most people use them interchangeably, but they are different.

Projected goals are measurable quantitative effects with time limits. Goals are ends (effects) all by themselves. They are out of our control. They are business goals not technical goals.

Projected objectives are the systemic or human causes that have to be in place in order to achieve the desired goals. They are the means to ends (goals). They are the building blocks for the goals we want to achieve. They are in our control. The projected objectives may change during the collaboration phase. Objectives can be both business- and technical objectives.

Collaboration Is a planned sequence of interactions between clients and consultants. Basically, this is the process when clients and consultants jointly create new value that clients haven't had before. This is the value that is intended to help clients to reach new goals. However, there is a third contributor to the collaboration: Uncontrollable factors that can be anticipated but can't be fully factored in and compensated for. These factors are illness, death, natural disasters, changes in the economic or political climate, act of terrorism, etc.

Achieved objectives are collections of tasks that can be checked as done and dusted. Clients and consultants are both responsible for accomplishing the projected objectives. Accomplishing the objectives represent the values consultants bring to the table. And here again, the some uncontrollable factors raise their ugly heads. These usually are internal issues related to the client's business.

Actual goals are the client's business goals. Consultants can render value, but clients must interpret, integrate and internalise value in order to turn it into business goals. No external professional can do that.

That's why external professionals can't be made responsible for achieving goals (results).

Example Project

Projected goal: To start selling online and reach $1 million in sales within the next 12 months" is a goal.

Projected objectives (inputs):

1. Build website
2. Write web copy
3. Optimise website for search engines
4. Optimise website for usability
5. Set up database
6. Build email list
7. Write bait piece and email follow-up
8. Create more useful content
9. Set up shopping cart system
10. Set up payment system

Note that the fulfilment of these 10 objectives doesn't automatically guarantee the $1 million in sales, but these 10 objectives MUST be in place to have a fighting chance to achieve that projected goal. In farmer's lingo, planting alone doesn't guarantee bountiful harvest. But the lack of planting guarantees the lack of harvest.

In consulting projects, these are the rough ratios that contribute to projects' overall success.

10% comes from the consultant's expertise.

30% comes from the consultant's position in the relationship (respected expert vs. fungible vendor).

60% comes from the clients' commitment to their successes.

So, the only two ways you can maximise project success is by growing your expertise and, even more importantly, position your company properly in your clients' perception.

No matter how good your people are as IT experts, but if clients treat you as fungible vendors, there will always be problems.

Collaboration Is a planned sequence of interactions between clients and consultants to accomplish the planned 10 objectives.

Achieved objectives are the outputs of the collaboration process. But here we have to face some uncontrollable factors too, like the client or the consultant's death or long-term illness, natural disasters, changes in the economic or political climate, act of terrorism, etc.

Actual goals are what clients achieve through the newly received value. Or clients hit the objective-to-goal gap. For instance, there is the optimised website, but the client has bad credit and can't get a merchant account for the payment system. The original goal of $1 million within 12 months is down the drain, but it's not the consultant's fault. The client has to sort out his finances and find a bank that gives him a merchant account for online payment.

Remedy: Offer a good guarantee, but only on high-priced services and not for results. You take more risk, but you have higher rewards too.

A Few Words On The Objective-To-Goal Gap

You're in the middle of packing just before moving to your new home.

All of a sudden, there is a knock on the door. You open it and the FedEx driver hands you a small packet. You sign for it and then continue packing.

Six months later, in your new place, you bump into the small packet again.

You open it and read the letter. The letter is from the lottery company, asking you to come in and pick up your winnings of $20 million. Then you read that the money must be picked up within 30 days of delivery.

You're five months too late.

You scream up a storm and sit down to fight dizziness. Yes, you've just lost $20 million.

In this equation the letter is the value or objective and the $20 million is the result or goal.

FedEx has delivered the value, but you've failed to turn it into result.

Would you sue FedEx for your loss? I don't think so.

So, what you guarantee is clients' capabilities of achieving certain goals, not the dead-certain achievement of those goals.

Yes, clients are impressed by good guarantees, and offering them can be risky. But it's vital that you stand behind you products/services. This is the other reason why you need high-calibre professionals not minimum-wage thugs who may show up on clients' sites drunk as a skunk or stoned out of their skulls. Or they may not show up at all.

So, back to guarantees...

Guarantee satisfaction with your services.

Guarantee quick replacement on your products. It may be a good idea to model your guarantee after Apple's seamless guarantee.

Guarantee the timely accomplishment of the projected objectives that are under your full control. Guarantee that the same people who've started the project will finish the project, so clients don't have to learn new names every day. Of course, factor in illness or circumstances outside your control.

Fail To Improve Project Management

There is project management and project management.

I would even say there is project management (doing things right) and project leadership (doing the right things).

One big part of traditional project management is keeping time sheets and tracking technicians' hours, so their pay can be calculated.

Well, hours shouldn't be tracked and technicians, being professionals that they are, should be on annual salaries plus bonuses.

Having read several studies, it seems that the two tasks of tracking time and calculating hourly wages costs IT companies a small fortune.

But the other concept is project busy-ness vs. project intensity.

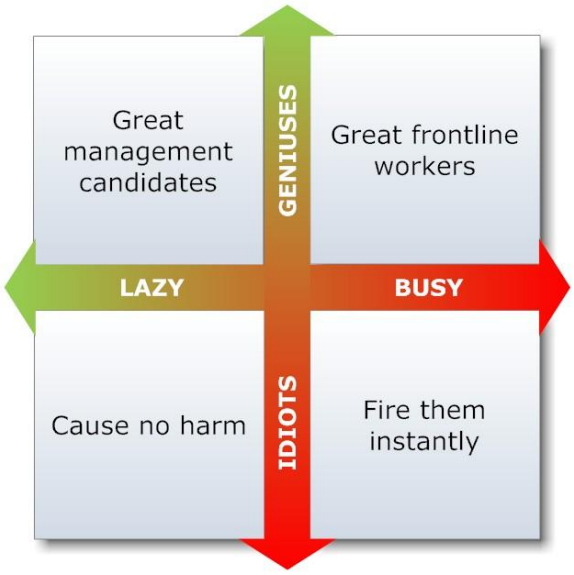
Traditional project management focuses on busy-ness: "Pay me because I was very busy during the project. Yes, we missed the objectives and the deadlines, but I was busy- so I must be paid."

Project leadership focuses on accomplishing the pre-defined objectives within the pre-agreed time frame.

One good project management concept I like comes from Prussian Field Marshal Helmuth Karl Bernhard Graf von Moltke (1800-1891). He developed four categories for military officers.

1. **Lazy geniuses:** I make them my Commanders because they make the right thing happen but find the easiest way to accomplish the mission.

2. **Busy geniuses:** I make them my General Staff Officers because they make intelligent plans that make the right things happen.
3. **Lazy idiots:** I make them do are menial tasks that they can do easily. Also, they follow orders without causing much harm.
4. **Busy idiots:** I eliminate them for they are dangerous. They cause the wrong things to happen and cause more trouble.



And we have to use this method in project management too...

Lazy geniuses: They are your strategic thinkers, innovators and overall value-creators. They are the heart and soul of the company.

Busy geniuses: They are your best implementers. They are detail-orientated and do everything to finish projects.

Lazy idiots: They are neutrals. They are useless for valuable work, but don't cause any harm either.

Busy idiots: They are the problem people. They are busy spreading and implementing their idiotic ideas and often cause huge damage in the process. They are the reason why you need a good lawyer on retainer. You just never know when a busy idiot in your company goes on a "creativity rampage".

Conventional wisdom says, "If you want to get something done, give it to a busy person."

Walter Chrysler, Founder of Chrysler Corporation, says: "Whenever there is a hard job to be done, I assign it to a lazy man. He is sure to find an easy way of doing it."

For start, you might as well read some of my favourite books on project management...

- Peter Taylor: *The Lazy Project Manager: How To Be Twice As Productive And Still Leave The Office Early*
- Gary Chin: *Agile Project Management: How To Succeed In The Face Of Changing Project Requirements*.
- Jim Highsmith: *Agile Project Management: Creating Innovative Products*

Remedy: Re-assess your project management practices. Do you track time chunks and activities or completed work phases and objectives?

Summary

I reckon there are more factors that can undermine IT companies' margins, but I think these are some of the most important ones and the ones that you can control pretty effectively.

At the same time, you have to be aware of situations that you can't prevent, but you have to respond to.

Factors-Timing Matrix

		TIMING	
		PAST	FUTURE
FACTORS	EFFECT	Adaptive Action	Contingent Action
	CAUSE	Corrective Action	Preventive Action

I've read about a great model for this situation in one of Alan Weiss' books.

Preventive action: Working on avoiding a certain cause that can happen in the future.

Contingent action: Anticipating the future occurrence of and effect and lessening its impact.

Corrective action: Dealing with a cause that has already created an undesirable effect, and we don't want that to repeat. So, we correct the cause, coming from the past, so we can have a better future.

Adaptive action: The shit has hit the fan in the past, and now we have to deal with it and adapt our lives according to the undesirable effect.

Just look at each of your situations that may have you leave money on the table, and then inspect each situation individually for factor and timing.

Once you have your list, start with the easiest one to solve. The solution of that issue gives you both momentum and self-confidence that you can do this.

In the meantime, don't sell harder. Market smarter and your business will be better off for it.

About The Author

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.

Winning Yellow Pages Advertising For Information Technology Companies: One piece of good news is that most people who look you up in Yellow Pages are serious buyers. Another piece of good news is that some 97% of Yellow Pages ads are like eunuchs in a harem. They are physically there but are unable to perform.

The bad news is that your Yellow Pages ads might look like your competitors' ads. But that's great recognition and you can now correct this error.

Some people say, no one uses the Yellow Pages any more. Normally not. But in case of emergency (server down or computer crash), people look up the Yellow Pages and phone the company that is best differentiated from the masses. And remember that emergency work has very very high perceived value. So, take a moment and look at your ads. Winning Yellow Pages Advertising For Information Technology Companies

Perfect IT Client Profile Development Toolkit: We all know the high financial and psychological cost of low quality clients. They pay little but demand a lot. Even when they are happy, they are reluctant to give testimonials and introduce us to their connections. So, it's pretty important to carefully cherry-pick clients and to make sure they come from the top 0.5-2% of the 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