

Year End Is Coming, So It's Time To Dump Dead Wood Clients

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[Blog entry](#)

Many years ago Marilyn Monroe said, “In Hollywood, a girl's virtue is much less important than her hairdo.” And I think Marilyn was right. When you look at the high number of celebrities Hollywood has produced over the years that have amazing hairdos but pathetic virtues, you may even come to the conclusion that virtues don't even matter at all. Not even a sausage.

But while that statement may have been true in the industry of glitz and glamour, IT business development is a bit more substance than style. Granted, not many business owners realise that, but let that be their problem.

There is a chronic overdose of IT companies that look healthy on the outside, but on the inside they pay barely minimum wage to their people who actually do the work that keeps those companies in business.

Many business leaders brag about their prestigious clients, but when we take a closer look, we can clearly see that it is those clients that hold those companies back from paying their people well, enabling them to attract top-notch talents.

Imagine a company that brags that it's a Wal-Mart supplier. The way I see it, doing business with a corporate douchebag, like Wal-Mart, is not exactly an achievement, but rather a desperate effort to stay in business.

And sadly, so many IT SMBs fall victim to the phony attraction of big name clients. And once they sign their contracts, “big name” clients often become BSD (Big Swinging Dick) clients and start wielding their “big name” power and start making idiotic demands on SMB IT suppliers.

Of course, there is the ultimate BSD client, the government, a collection of mainly incompetent and power-hungry bureaucrats who, through their exalted titles and glamorous positions, can cajole, threaten and browbeat IT providers to offer them all sorts of special favours for the privilege of working for the government. I still don't fully understand how governments can find takes for this kind of perverted business proposition.

Anyway...

There are several problems with BSD clients. Some of them are...

1. They demand preferential treatments.
2. They regard their IT providers as vendors not as respected experts.
3. They love stretching payment terms even to the point of not paying at all.
4. They love acting as puppet masters to their IT providers.

And this the point where business owners have to decide between...

Having The Bragging Rights To Work With Prestigious Clients Or Having Great Clients And Running A Profitable Business

I'm not saying the two are 100% mutually exclusive, but it's almost exclusive. And that's a very

generous statement.

And we're headed towards the end of the year, we all look back and assess the sales and profit projections we made in January.

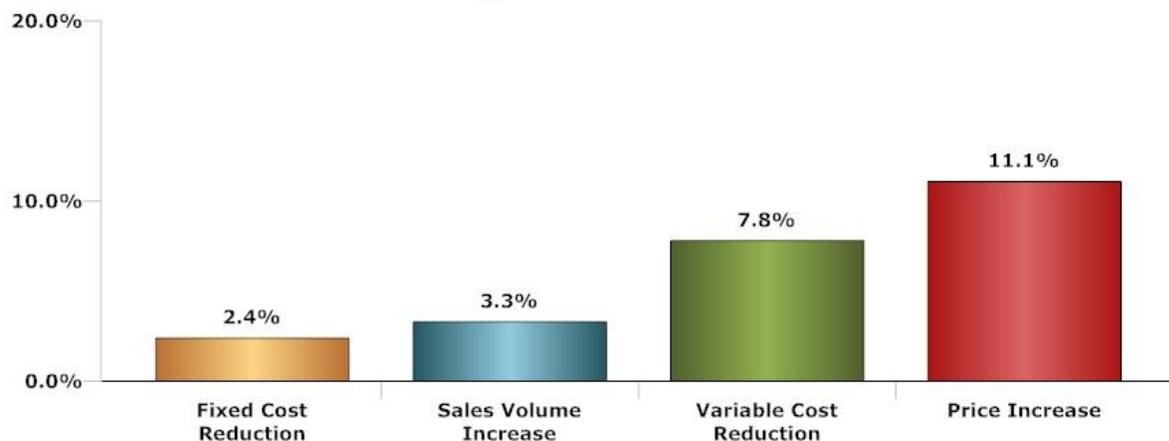
While quality of clients is not the only factor that defines profitability, it's certainly one of the main factors.

Why?

Due to pricing.

More than anything else, pricing defines your profits.

Leverage of Price and Profit



1. A McKinsey study of Fortune 1,000 companies showed that, on average, a 1% price increase increases operating earnings by 11.1%.
2. Another composite study of 500 companies across multiple industries showed the relative impact on operating income of price and three other business variables.

The Leverage of Price and Profit Source: Michael Mara and Robert Roriello, "Managing Price, Gaining Profit," Harvard Business Review (September–October 1992): 85.

Your price is the #1 leverage to your profits.

And what we can also see here is that clients' prestige is not even a variable.

Prestigious clients who pay late, treat your people like shit and keep demanding more and more for the same money should be fired.

So, Where Is The Problem?

When we started our businesses, we were not as picky about the quality of clients as we are now. We loved getting business and were eager to work with those clients. And whatever mistreatment we got, we brushed it off as part of doing business.

So, soon we got flooded with low margin-business that put food on the table and fuel in the car, but neither stretched us to grow nor gave us the size of margins that would make us feel

appreciated.

And this is where business owners act differently.

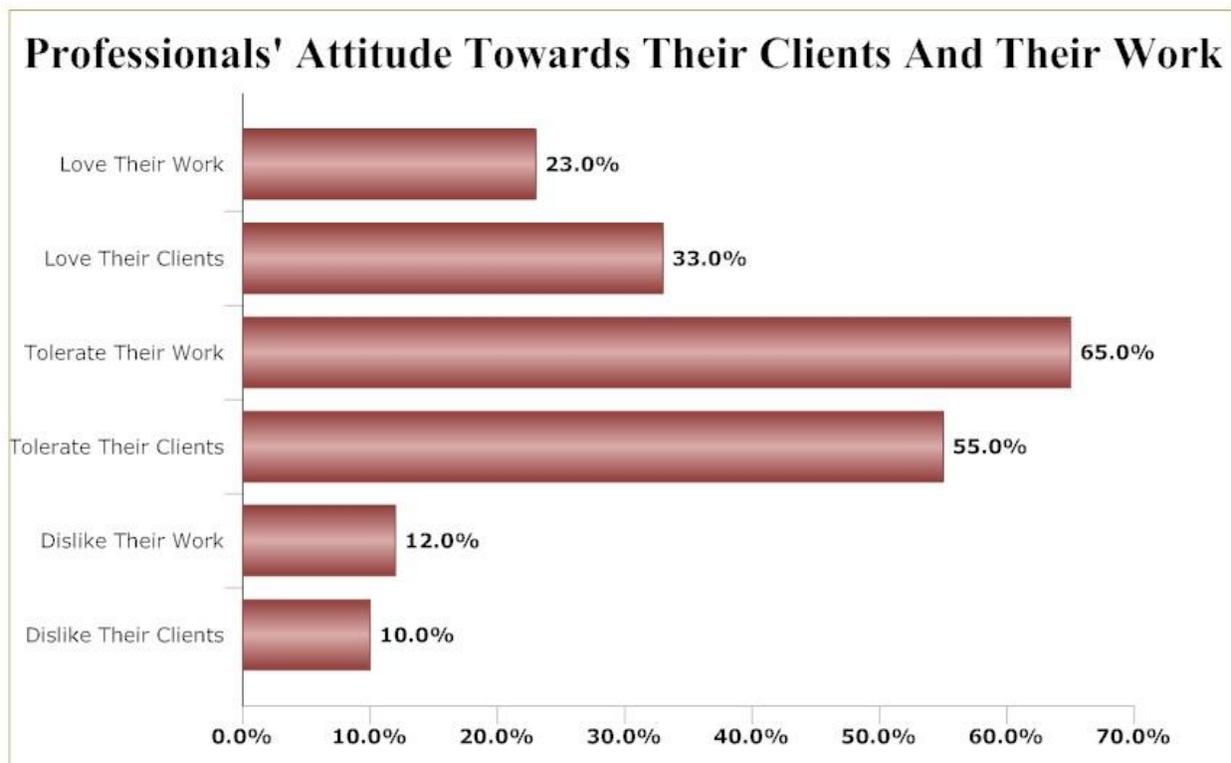
The benevolent ones would take less money for themselves, but insist on paying their people as well as their businesses allow.

The malevolent ones would take as much money out of the business as possible and pay their people close to legal minimum wage.

They live pretty high on the hog, while their people almost qualify for government income assistance.

And wage is just one thing. The other problem was that people don't have the tools that they need to do their jobs. I've met far too many technicians who buy their own tools, so they can work and make money for their employers.

In his book, *True Professionalism: The Courage to Care About Your People, Your Clients, and Your Career*, based on his extensive research among professional service firms, former Harvard Business School professor David Maister, comes to a valuable conclusion...



Many business gurus are talking about that we should love what we do, but don't mention much about loving our clients.

I believe, we should engage only in exciting, "sexy" projects with clients we truly care about. The relationship is similar to a marriage apart from sex and kisses. The above survey proves that many professionals operate merely as whores: "I don't like you and your project, but I pretend as long as you pay me." On the opposite end of the scale are most professional nannies and fitness

professionals who work for peanuts, but truly love both their work and their clients.

To make sure that we do projects that make us stretch and learn with clients we really care about, we have to look at our clients regularly and make pragmatic assessments as to whether or not we want to keep them and work with them any longer.

One of the greatest advantages of being a provider of high-end “frontier-calibre” IT services is that you can grow on each and every project you do.

You can certainly grow technically by often being forced to find new technologies for clients to achieve certain objectives. But you can also grow personally and businesswise through the interactions with clients and.

And the reality is that, although you're in a technical business, technical growth is not enough, because all your competitors do that. What will distinguish your company is the personal and business savvy growth of your people.

We all are likely to have some clients who could be better served by someone else, but while being served by us, we are holding ourselves back from some serious growth.

The other point is that we constantly want to increase our margins. Yes, some businesses come with low margins, but in the IT industry, it's mainly caused by the owners' low self-esteem. They are worried that they price themselves out of the market.

Yes, sometimes this is true, as it was true for the German car manufacturer Maybach. As it turned out, with its near \$8 million price tag, the Maybach Exelero was a tiny bit priced out of the market, and in 2013 Maybach closed shop forever.

But most IT business leaders err on the lower side of pricing anyway and sell their services for peanuts.

But regardless of pricing, you probably work with clients from heaven and clients from hell. I'm also pretty certain that some 80% of your profit comes from 20% of your clients, and those happen to be the clients from heaven.

Then maybe it's time to dump some of the 80% that give you only headaches and stomach ulcers.

But here is a catch. Just because 80% of your net profits come from 20% of your clients, it's not the same as 80% of your gross revenue.

It can be misleading. Just look at Toyota. A mere 3% of Toyota's gross revenue comes from Lexus. But that 3% of gross revenue includes 59% of Toyota's total net profit.

Now that's something worth thinking about a second or two.

And this is why it's important to regularly shave off the bottom range of business. That includes problematic clients, low-margin work and unsexy, donkeywork type engagements.

Let's start out from the fact that you're likely to perform...

Three Types Of Business

1. Business that is somewhat incongruent with your growth strategy, but it is steady and you want to keep it because it can turn into something better down the road. This puts food on your table, shirt on your back and fuel in your car. These clients can be educated about your evolution, so they can evolve with you.
2. Business that is congruent with your growth strategy and propels you onto new heights of success. This is the kind of business you want more of.
3. Business that represents your past, and you try to break free from it. This is the very segment to be abandoned. This segment can hold you back from your continuing development.

So, invest the time, and look at each of your clients and ask these questions of yourself:

- Am I truly caring about this client?
- Am I totally enjoying this project?
- Am I really learning from this client's projects?
- Am I providing a minimum 10:1 value to this client?
- Am I able to practise my character traits without walking on eggshells?
- Am I making a hefty profit on this client's projects?
- Am I stretched beyond my current professional abilities?
- Am I introducing new desired value components to this client?
- Am I getting good referrals and recommendations from this client?

I admit this concept works best if you apply it with value-pricing, because hourly, or any other time-based, pricing lends itself to pedestrian, garden-variety peddling of tasks and deliverables.

People who use time-based fees (very often as outsourced labourers) may have a hard time to abandon bad business for their objective is selling more time chunks.

Make sure you keep only those clients who are willing to go for an "Incredible Deal", meaning:

1. Client: "In terms of results, it has been an "incredible bargain" to hire this company."
2. Consultant: "We delivered amazing client value, we learnt a lot from the work and we made a sexy profit."

Take some time now and assess your clients. Do you truly care about them, do you just tolerate them or do you wish them to rot in some pestilential pits of hell?

Take a sheet of paper and lay it down landscape. Create five columns. From left to right name them as: "Best Clients", "Characteristics of Best Clients" "Perfect Client Profile", "Characteristics of Worst Clients", "Worst Clients". Only write in existing clients.

Best Clients	Characteristics of Best Clients	Perfect Client Profile	Characteristics of Worst Clients	Worst Clients
ABC Company	No haggling	Accepts our fees	Constant haggling	XYZ Company
DEF Company	Treats us as	Treats us with	Treat us as	TVW Company

Best Clients	Characteristics of Best Clients	Perfect Client Profile	Characteristics of Worst Clients	Worst Clients
	experts	respect	vendors	
GHI Company	Fast implementation	Fast Implementers	Foot-dragging implementation	QRS Company

First fill in your best clients, then the worst clients, characteristics of the best, characteristics of the worst and then develop the characteristics of your ideal clients. Test your current accounts, and decide who gets the chop this year.

I also suggest that you try to keep your emotions out of the picture. Yes, you can judge clients individually, but make sure they also measure up to some objective qualification process too.

This is why the military is so good at recruiting people. It's pretty objective. There are quantitative criteria for everything. Anyone who fulfils the criteria is in.

I say this because we can easily say that we love these and those clients, although they are measurably unqualified for our services.

But instead of telling clients that they are not good enough for you any more, Emphasise that your company is not the best choice for their objectives, and refer them out to some competitors.

Your company is now lighter, and your competitors will start saying good things about you. And that's a lot better than a poke in the eye with a sharp stick... on some day.

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](#)