7 Ways IT Companies Leave Money on the Table And Under-Serve Their Clients

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Blog entry

Did you know that after being decapitated, the average person remains conscious for about 15-20 seconds?

Actually, this is a pretty pathetic performance if we consider that a cockroach can stay alive for nine full days without a head, before starving to death.

And while IT business owners don't die after they've realised how much money they've left on the table on their projects, some of them get pretty close to the point of hanging themselves in frustration.

So, this month, we address seven ways IT companies leave money on the table on their projects and what they can do to stop doing it in the future.

Let's see...

1. Doing Technology Diagnostics And Planning For Free

Many IT companies get their clients through competitive bidding and RFPs.

It also means that they are expected and required to do preponderance of upfront work for free in order to comply with RFPs' requirements.

But if we understand that the RFP is just a fishing expedition for cheapest seller or unsuspecting suckers, we can realise that the best bet is to avoid RFPs like the plague.

They look tempting on the surface, but most of those babies are nastier than a grizzly bear with a stubbed toe.

Instead, IT Providers Should...

...do initial diagnostics for a fee.

Every new project should start with a thorough diagnosis. If it is a brand new client, this statement is doubly valid.

As they say in medicine, prescription without diagnosis is malpractice. And this phrase should guide IT companies too.

You should create a service package that is part of your new client onboarding process, during which your people do a very detailed diagnosis on your new clients' IT infrastructure and document it.

Then clients can retain either you or another firm to solve the problems. But you've already been paid for it.

Quality clients don't expect you to do free work. They know this is business. And they don't do free work either.

And clients that expect this upfront free work are not worth having as clients.

2. Allowing Clients To Have Their Technology All Over The Map

The more providers your clients get their IT solutions from, the more messed up that IT infrastructure is likely to be.

It's like cooking a meal that is a bit Indian, a bit Chinese, a bit Italian, a bit Greek and a bit French.

You end up with a huge mess. And no one is willing to eat it.

Instead, IT Providers Should...

...consolidate all of their clients' assets under one roof.

That is, either your clients are willing to get all their IT doodads, doohickeys and thingamajigs from or through you or they are out.

Why is this important?

It can happen that the client has a problem that's related to IT provider A.

But IT provider A can't be reached on Sunday 2:00AM, so the call comes to you. And while you are not familiar with the company-specific setup of that specific system, the client demands a timely resolution from you.

And if you say "no", you may well lose the client.

So to avoid that situation, make sure your company is the only IT company working with the client. This approach also makes sure, you don't get tempted to accept morsels of projects.

3. Failing To Get Recommendations Implemented

Many IT companies put in their best recommendations to their clients, but then all of a sudden, usually to the advice of the company's accountant or CFO, the buyer overrules the IT experts' recommendations and end up buying something totally idiotic, but a lot cheaper than the original recommendation.

But now, as the company's IT provider, you're on the hook to deal with all the problems caused by this cheap piece of crap equipment.

Instead, IT Providers Should...

...stipulate in their agreements that all their recommendations that get implemented, must be implemented as per their recommendations.

For instance, if you recommend a Cisco 7300 series router, then don't let the client get away with a cheap Belkin or Linksys router.

Doing that and expecting it to perform a miracle is like building a castle out of crap on quicksand.

4. Accepting Work From Non-Ideal Clients

Most IT companies have only target markets, and within those target markets, anyone can be a client.

Well, one of my favourite fruits is orange, but I don't eat the skin. It's a part of my favourite fruit, but it's not my favourite food.

Similarly, you have to cut deeper than having a target market.

Instead, IT Providers Should...

...accept work only from ideal clients. No matter what your target market is, Pareto's 80/20 is alive and well.

It means 80% of the market is less than ideal, and a large chunk of this 80% can rain hell on your company.

Craft a perfect client profile, and accept no one else as clients.

5. Employing Low-Cost People

In my experience, it's impossible to run a highly profitable business with low-paid, low quality professionals.

Well, you can make great gross revenue, but when you look at the net profit per employee, you may get a heart attack.

Except your people, their talents, ambition, drive and enthusiasm, your competitors can have everything that you have. They can have offices like yours, computers and other hardware like yours, software like yours, company cars and vans like yours and everything else.

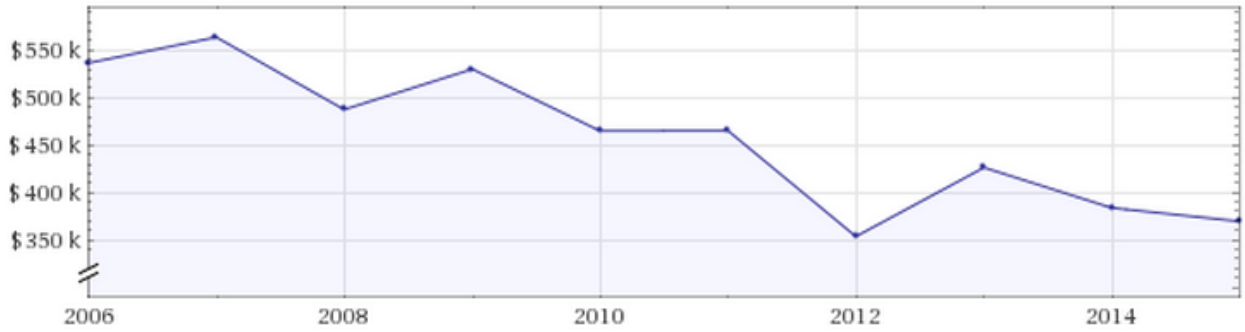
Think of two IT, well, internet giants.

When starting out, Yahoo's strategy was to acquire the best of the best technology and the cheapest people to operate it.

By contrast, Google acquired mainstream, off-the-shelf technology and the best and brightest talents.

And what is the result?

Here are some charts from Revenue Per Employee Charts Are A Fascinating Way To Judge The Health Of Tech Companies by Nicholas Carlson (Business Insider 9 April 2015)



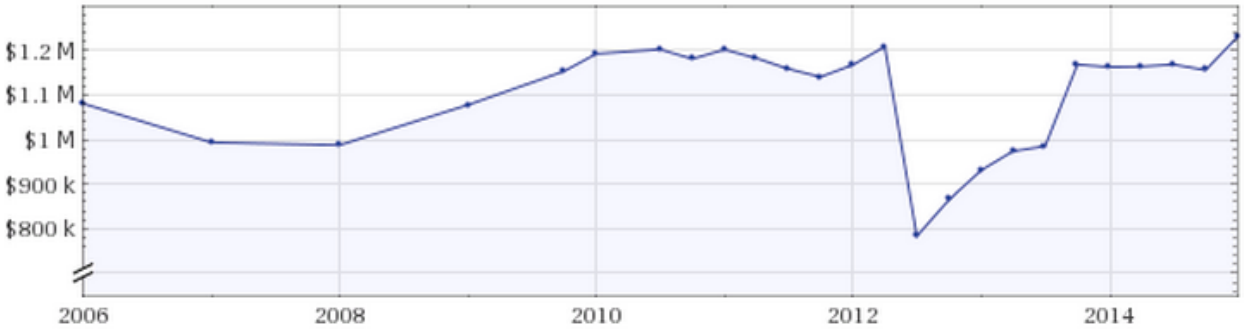
Yahoo's revenue per employee over the past 10 years

For years now, Yahoo's main growth strategy is to acquire everything that can be acquired. It can't build anything that works, but it can acquire.

And Big Cheese Marissa Mayer has made the situation even worse by tightening the rules on developers who used to be allowed to work from home.

As soon as she required all developers to show up every morning in the office and work from there, the best and brightest quit.

Now she's left with the mediocre bunch that has nowhere to go.



Google's revenue per employee over the past 10 years

One of the reasons why slavery was abolished many years ago was because those greedy capitalists realised that free people could produce more than slaves.

And, adding my thoughts, well-paid free people produce much more than underpaid free people. Especially because underpaid people are not free at all. They are in the clutches of their disadvantageous financial situations. And you can't do your best when you're worried about daily financial survival.

Besides Google and Apple, the major social media companies too are notorious for hiring top talents. And take a quick look at their charts.

And what about Amazon? A few years ago, Amazon gave in to the temptation of hiring cheap labour and working them under atrocious conditions in warehouses. And the chart shows the result.

Among others, there has been a big social change too.

For instance, Millennials don't tolerate the kind of managerial abuse Boomers and the nose-end

of Generation X tolerated.

When they feel mistreated, Millennials quit their companies, start their own businesses and, very often, push their former employers out of business by doing much better what their ex-employers could have done if they had listened to those Millennials.

And unlike the Boomers, with their obsolete "industrial" mentality, Millannials know that it's talent that rules the land, not blind obedience of the boss and other bromides that Boomers were "trained" to believe in.

Instead, IT Providers Should...

...recruit only top-notch talents. And by talent I don't mean technical geniuses. I mean people with...

1. Good character
2. Technology expertise
3. Industry-specific business savvy

Technology is the content that you do within the context of business and under the guidance of your character.

If clients perceive that you solve technical problems, then you become a commodity.

Differentiation comes from solving business problems.

Well, then solve business problems!

6. Pricing Based On Time, Effort And Materials

I know old habits die hard, and one old habit is that you should base your fees and prices on the amount of labour it takes to produce a product or render a service.

Effort- or time-based pricing certainly makes pricing a child's play, but it also makes me think that companies that are after child's play calibre pricing methods should hire their CFOs and accountants from the local kindergartens.

Then, as an extra benefit, they can get child's play calibre financial management too.

Karl Marx said many years ago that...

> **"The relative values of commodities are determined by the respective quantities or amounts of social labour worked up, realized and fixed in them."**

According to Marx, something is worth of what is put into that service or product. That's all. That simple.

But, having lived under communism for 27 years, ruled by this perverted Marxian economy, I'm pretty confident to say that Marx was a moron.

> **"If Karl, instead of writing a lot about capital, made a lot of capital, it would have been much better." A comment from**

> **Henrietta Marx, Karl's mother, quoted from the book *The End of Money* by Richard W. Rahn 1999.**

Instead, IT Providers Should...

...pay attention to Carl Menger, the founder of Austrian Economics, said...

> **"Value is judgement economizing men make about the importance of the goods at their disposal for the maintenance of their lives and well being. Hence, value does not exist outside the conscience of men."**

He said when it comes to value, the receivers, not the creators or givers, of value make judgements, discernments and perceptions in their minds about what they value.

And if you have a problem to charge what your stuff is worth, then change your market.

Think about it.

If you are selling bottled water, do you prefer to sell it to people who want to wash their cars or to people who are on the brink of dying of thirst in the desert?

Well, dump the car owners and go after lost souls in the desert.

7. Obsessed With Improving Efficiency

This baby is linked to the previous point. If you get paid for effort, struggle and the sweat on your brow, then you automatically focus on doing more and more of the same.

You focus on efficiency, that is, being impressively busy.

The problem is that this is exactly what most clients demand from their IT providers. In general, people appreciate visible busyness more than quiet value-creation.

This is the reason why most clients get bogged down about how many hours you spend on their premises, and some of the more obnoxious ones tell you straight that whatever you do off premises is not recognised as work and you don't get paid for it.

The problem is that no matter how high you crank up labour intensity, you're still paid as a manual labourer. No matter how much of an IT expert you are, clients perceive you as a labourer who should work like a dog and sweat like a pig for his money.

Instead, IT Providers Should...

...improve effectiveness. That is, focus on getting things done. And how long it takes you to get it down is none of your clients' business.

Clients buy your capability solve business problems (NOT technical problems) not your time to spend on their companies' premises as long as you stay within deadlines.

So, the idea is that your should render value commensurate to the amount that your company gets paid, and render that value using as little of your time, money and effort as humanly possible.

Now some people may disagree and regard you as lazy arse for this approach.

And this reminds me of the late Douglas Adams in his book, *Mostly Harmless*...

> **"Some of the things that live in the lower intestines of rats would disagree, but most of the things that live in the lower intestines of rats are highly disagreeable anyway, so their opinion can and should be discounted."**

Smart clients expect high engagement intensity not labour intensity.

What's there difference?

Well, labour intensity is all about doing what you've always done but harder and longer. Investing more time and effort to create more deliverables.

Engagement intensity is all about applying new knowledge and using better tools to get the problem solved more quickly and with less probability for relapse.

Engagement intensity is all about factors like, access level, responsiveness, level of engagement, expertise level, accountability, focus, commitment, energy, precision, enthusiasm, passion, devotion to excellence, interest and probably some other factors.

It has nothing to do with time chunks.

On Summary

In Ayn Rand's masterpiece, *The Fountainhead*, the Harvard-educated, talentless but sickeningly power-hungry political spin master, Ellsworth Toohey explains to one of his followers...

> **"There are more ways than one to skin a cat, Lance. The skinning isn't important once you've broken its spine."**

In business development, the mindset represents the spine and the seven techniques represent the skinning methods.

Once your mind is tuned in to the idea of capturing all the money that represents the value of your delivered services, it's a lot easier to deal with the methods.

But until the mind accepts the you deserve the money, it's pointless to do any skinning.

The spine must come first.

Now go and take a closer look at your company's spine and then do some breaking and skinning as necessary.

Oh and make sure not to hurt any cat, dog, elephant or any other animal in the process.

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

With victory on high...

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Additional Knowledge Products to Build Your IT Business

Winning Yellow Pages Advertising For Information Technology Companies

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