

# **Who Makes The Most Money In Your IT Company?**

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A Monthly Business Development Newsletter For Privately Held IT Companies And Independent IT Professionals

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[Blog entry](#)

**H**ave you heard of the great the great extra virgin olive oil scandal? That the oil wasn't even virgin let alone extra.

So, scientists at the University of California, Davis, went on a shopping spree at some local supermarkets to buy some extra virgin olive oil. They returned to base with 14 of the US's most popular high-end imported brands and started analysing them. Interestingly, 69% of the imported extra virgin olive oils were as bogus as the unemployment rate. They were adulterated and as stale as the bitter taste of an argument.

I mention this toe-curlingly interesting factoid because in many IT SMBs compensations are about as messed up as the ingredients in bogus extra virgin olive oil.

And this really raises the question of who makes the most money in your IT company?

Is it your corporate the lawyer? Is it your accountant? Maybe the...?

All in all, are your people paid according to the value they generate for your company or according to how many hours they are on the clock or how much their schooling cost?

Granted, on the schooling part, your lawyer most probably beats everyone, but does that make him the most valuable player on your team.

It depends.

If your #1 business objective is to stay out of prison, then he is.

But your #1 business objective probably is to build a profitable business that you, your parents, your people, your peers and your industry are proud of, then the lawyer is the wrong answer.

What can you conclude when the lawyer and the accountant are the highest-paid people in the company?

Well, the company's main objectives are to keep costs as low as possible and keeping the owner and the top executives out of prison.

Having talked to thousands of IT SMB owners over the years, I've never come across anyone who started her business based on those two objectives.

Normally, we would think those people are paid the most money who generate the most revenue for the company, but more often than not that's not the case.

And yes, in today's complex world everything is a team effort, but different teams work on different things in a company.

Just like in football, in business too, there are offensive and defensive players.

While business development people work on generating new revenue, that is, playing offence, lawyers, accountants and most other people are playing defence by protecting their companies from potential losses.

And let's look a team sports now for a second...

Who earns more money? Is it the offensive or defensive players?

After some research, I've learnt that top-notch soccer striker Luis Suarez was bought for US\$130

million in 2014. At the same time, equally top-notch defender, Sergio Ramos was bought for some US\$30 million. One quarter of the price of a striker.

Strikers attack for gain; improving the status quo. Defenders defend for loss avoidance; preserving the status quo.

So, in sports, attack is valued higher than defence.

## **How Does This Pan Out In Your Company?**

Who do you pay better? Your strikers or defenders?

Is your company focused on pursuing victory and profitability or on pursuing the avoidance of defeat, loss and bankruptcy?

Yes, the owner of the company makes good money because she's created a legal revenue-generating entity that offers career opportunities to talented people.

If this structure is well-managed, it makes many people's lives really nice. And of course, she takes all the risk. It's her name on the bank loans, leases and other arrangements.

So, no doubt, she deserves her money... in most cases.

The next group of people who should make just as much or almost as much as the owner<sup>1</sup> are the business development people. After all, they bring in the new money, and in doing so, they are "feeding" the whole company.

Business development folks are the proverbial strikers. They score the goals. And they go out day after day to score new goals.

And when I'm talking about business development, I don't mean only salespeople who meet buyers face-to-face. I mean all the people involved in acquiring new business, even including the "lowly" receptionist who takes the very first enquiring phone call from prospects.

No matter how good your salespeople are, if that receptionist mishandles those very fist calls, everything else is as irrelevant as a pockmark.

As the sales terrain is changing...

## **The Emphasis Is Shifting From Sales To Marketing**

Some 10-15 years ago buyers were still reasonably open to meeting salespeople.

But not anymore.

The reasons may vary, but some of them are...

1. Buyers are worried about meeting hyper-aggressive, hard-nosed, manipulative, "don't take no for an answer" salespeople

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<sup>1</sup> I use singular here because I don't believe in partnerships. Most of them are dysfunctional. Sort of leadership by committee.

2. Buyers can obtain all the information they need
3. Buyers are sick and tired of dog-and-pony sales presentations
4. Buyers' plates are already full of mission-critical initiatives<sup>2</sup>
5. Buyers are missing the peer-level match
6. Buyers and sellers have opposing agendas
7. Buyers have lots of questions, but they know they can't get honest
8. Buyers don't want to partner with sellers

And I'm not the only bringer of sales doom. Just read...

- Corporate Executive Board: [Why Solution Selling No Longer Works](#)
- Forrester Research: [Death of a \(B2B\) Salesman](#)
- Harvard Business Review: [B2B Salespeople Can Survive If They Reimagine Their Roles](#)

All in all, buyers are as happy as a gym bag on a tomato field doing business without wasting their time and energy on meeting aggressive sales hunters.

And if we look at it realistically, they're right. Traditional salespeople are no longer needed in the sales equation.

Years ago, sellers hunted buyers; today buyer hunt sellers.

So, instead of salespeople, smart IT companies place more and more emphasis on both marketing people and so-called support people, like receptionists who are not in business development per se, but their quality is a major contributor to the decision whether or not first contacts become signed contracts.

This is why while in old-fashioned, obsolete IT companies salespeople ruled the land and got paid the most for their hunting skills, in modern IT companies, it's the marketing folks, of course, after their owners and top executives, who define IT companies' fates.

What makes this change even more interesting for business owners is that many of these marketing folks don't have to be full-time employees.

This is important because good copywriters (I'm not talking about content writers<sup>3</sup>), programmers, graphics designers and some other professionals come with six-figure price tags. At least the ones that are worth retaining.

Just take a copywriter, for instance. Copywriting is salesmanship in print.

Why do you think low-end copywriters join Elance or oDesk?

Because they are not good enough copywriters to acquire their own clients with their copies, they join Elance, etc. to furnish them with clients.

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<sup>2</sup> According to the study by the International Organization of Professional Organizers, the typical B2B buyer has 59 hours of urgent work on her desk, desperately waiting for her attention.

<sup>3</sup> Content writers write to inform, educate and entertain. Copywriters write to sell. A significantly more valuable skill. Copywriters can write content, but most content writers can't write copy.

Now then, if their copies don't sell, what's the logic in hiring them? Just because they're cheap? What's the logic in sending out a \$1,000 sales letter that accomplishes precisely dick? You're better off with a \$25,000 sales letter that generates quality sales leads that turn into \$1 million or more in the next 12 months.

Yes, you need a core marketing group that works on implementation on a daily basis, but some pretty expensive people don't have to be on your payroll on a full-time basis to be parts of the process.

For instance, can you keep busy a graphics designer 40 hours a week doing only graphics work? How about a copywriter or a programmer?

They are specialists, so they are not interested in cleaning toilets. They are good at their professions because they are sticking to their knitting.

They can be engaged and re-engaged on a situational basis whenever there is something special to do, but there is no point in having them sit at desks on your premises day in day out just to do nothing.

After all, would you put your accountant<sup>4</sup>, dentist and car mechanic on the payroll just because you require their expertise once or twice a year?

Probably not.

The next question is...

## How To Engage These Horribly Expensive Professionals?

### No Competitive Hourly Rates

These people are worth engaging because they are more than competitive, a.k.a. average, a.k.a. also ran. Well, mediocre.

As Verasage Fellow, Ed Kless is fond of saying...

**"If you suck at what you do, then bill by the hour."**

And this is the kind of people hourly rates attract. People who are not really good at what they do but they know they can figure out the solution on your dime.

And in the worst case, when they totally fail to deliver on their promises, they say "sorry" and walk away... with your money.

Professionals are experts in their professions and work pretty effectively. It means, they would punish themselves by working at hourly rates.

The only win-win is when you engage people on fixed-priced projects. You and your copywriter, programmer, etc. sit down together, scope out the project and then the expert gives you a fixed

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<sup>4</sup> Yes, your company needs a CFO, but an accountant is not a CFO, and the roles of the two shouldn't be confused. Sadly they very often are.

priced offer with 2-3 options and price points.

Then you can choose between a proverbial Kia, Mercedes and Rolls Royce option.

## No Competitive Bids

Top professionals know one thing about RFPs very well because they've been through it.

Most RFPs come from bottom feeder sweatshop grade clients in search of cheap professionals that they can throw into their next project meat grinders to work like dogs for some obnoxious, over-demanding and underpaying clients?

You may think I exaggerate.

Who invented the RFP?

The government.

The most corrupt man-made institution, staffed with power-hungry, obnoxious, over-demanding and underpaying bureaucrats.

And some other low-brow companies imitate that process.

Here are a few reasons why high-calibre professionals don't respond to RFPs. They know that...

- RFPs represent sewage-calibre opportunities from the low-end clients
- RFP buyers unanimously set the rules, badly stacked against sellers
- RFPs water down professionals' market differentiation
- RFPs eat up professionals' future profits on their projects
- RFP work represent low-quality master (client) servant (professionals) relationships

## Never Mind References and Testimonials

When you want to check references and testimonials, you essentially say loud and clear...

**"I don't believe a word you say until and unless I validate you by some strangers' opinions. If they like you, although I don't know them, I will like you. If they don't like you, I'll drop you."**

Good professionals are niche experts, meaning that they work in for a narrowly defined niche markets. And since their markets are small, they prefer not to name their clients.

And clients often require total secrecy and 100% confidentiality.

Just think about it. What do you think would happen if you asked your doctor or lawyer to give you references or testimonials? You would be dropped like a hot potato, and the doctor or lawyer would never ever consider you as a possible client.

Instead of references and testimonials, start new professionals on small projects. This is what the best of them recommends anyway.

And in this category, professionals offer money back service<sup>5</sup> guarantee. No they are not responsible for results, that's your job, but can guarantee what it feels like working with them. They can guarantee responsiveness and some other factors.

### **Let Your Professionals Work With Your Key People**

Let's say you hire a programmer who is supposed to design a payment system for your company's e-commerce website.

That programmer has to work at least with your CTO, accountant, controller, account payable person and account receivable person. Maybe some more.

It means the programmer has to have direct access to these people.

Without direct access, the end product end up like a pair of glasses whose frame, left lens and right lens were made by different people who've never communicated either with each other or the optometrist who did the eye test on the patient and the optician who fits the glasses to the client.

And just because the individual experts create the best frame and lenses, it doesn't mean they will be the perfect glasses for the patient.

### **Keep Your Agreements Simple**

Before you meet a lawyer that you consider to hire for some legal issues, you prepare yourself for the meeting and gather all the legal subject matter knowledge you have, knowing that the lawyer speaks legal language. That's normal.

But you still judge the lawyer how well he can explain complex legal things to you.

Just imagine that some wants to give you an orange.

I've found this puppy on a forum, posted by Nigel J. Shaughnessy. It's from a real legal document.

When a layperson wants to give you an orange, he or she merely says...

**"I give you this orange."**

But when a lawyer does it, the words he or she uses are...

**"Know all persons by these present that I hereby give, grant, release, convey, transfer and quitclaim all my right, title, interest, benefit and use whatsoever in, or and concerning this chattel, otherwise known as an orange, or citrus aurantium, together with all the appurtenances thereto of skin, pulp, pip, rind, seeds and juice to have and to hold the said orange, for his own use and behoof, to himself and his heirs, in fee simple**

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<sup>5</sup> This is NOT a results guarantee. External professionals can't achieve business results for their clients. They can only deliver the relevant value that internal staff can then apply and integrate into the business and turn into specific business results. An assassin can take out a politician, but no one can make him responsible for the desirable political change whose first step was the assassination.

forever, free from all liens, encumbrances, easements, limitations, restraints or conditions whatsoever, any and all prior deeds, transfer, or other documents whatsoever, now or anywhere made to the contrary notwithstanding, with full power to bite, cut, suck or otherwise eat the said orange or to give away the same, with or without its skin, pulp, pip, rind, seeds or juice."

When your lawyer drafts your agreements, they will be full of legalese, and instead of your buyers' reading them, they just pass them on to their lawyers for interpretation.

And here is the snag.

Entrepreneurship is all about taking calculated risks. Being a lawyer is all about avoiding risks.

What do you think risk-allergic lawyers will advise their clients?

They advise them to hand over the documents, and the lawyers re-write them with terms and conditions seriously stacked against sellers.

### **Hire Professionals With Subject Matter Expertise And/Or Industry Experience**

Since every industry has its own jargon, it only makes sense to engage professionals who understand that industry. Or at least know it.

The difference is that you understand something by having done it. By contrast, you know something if you've read about it.

Based on a 2008 study among industry leaders, by Broderick & Company, the top three criteria buyers are looking for in external professionals are 1) "experience in our industry", 2) "expertise in our subject matter" and 3) "Understanding of our business".

For instance, if your target market is law firms, you need to have experience in the legal industry, some legal expertise and a good understanding of the consulting/advising business model.

And these are above and beyond being a top-notch IT expert.

Granted, these professionals cost significantly more than professionals with these fringe attributes, so you have to decide whether you go for low price or high payoff. It's like with investments. You have to know your risk limit.

But low price never brings high payoff.

### **Hire Professionals With Strategic Understanding Of Your Industry**

Whatever professionals do in your business, they must understand your business at a strategic level. This is the only way to make sure whatever they do is within the context of your company's mission, vision, values and long-term goals (boardroom stuff).

As owner of your company, you're the guardian of the long-term perspective, and it's your responsibility to bring everyone up to snuff on the boardroom stuff.

Hiring professionals without industry or subject matter expertise is about as futile as trying to rake the ocean.

Yes, they can do their own subject matter expertise, but very often outside the realm of the client's business.

### **Treat External Professionals As Genuine Team Members**

Bottom ranking professionals who live hand to mouth and struggle with daily survival at the bottom of the Maslow pyramid are most concerned with the money that they make.

By contrast, top-tier professionals live on the top of the Maslow pyramid subordinate money to some other factors.

Based on various sources<sup>6</sup>, factors like full appreciation for work done or sense of belonging rate much higher than typical employee factors, like good wages, promotion and job security

Oddly, this absence of pursuit of money makes top professionals so well-paid.

I would also add that getting underpaid is a major demotivator for everyone.

The other side of this belonging coin is that if your professional want to work alone and isolated in a "tell me what you want and get out of my way" fashion, then don't hire him.

To do good work, you need a collaborator not a prima donna.

### **Summary**

For a few years now, business owners and senior executives have been talking about using value-pricing selling their companies services.

What we're talking about here is using value-paying throughout the company.

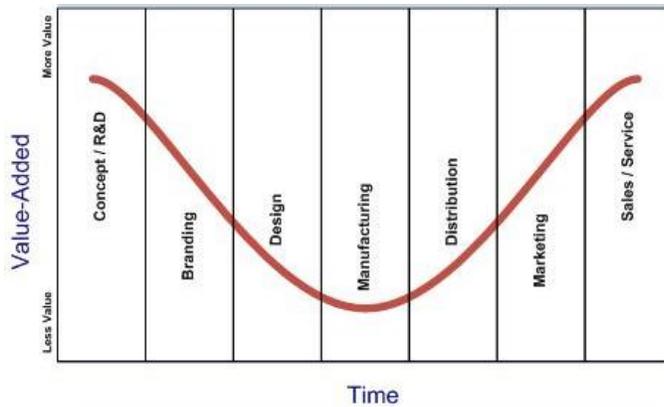
So, let's forget about seniority, schooling and other mandatory factors that define people's salaries.

Above and beyond good character, one thing matters and that's the value the person brings to the table.

But, be careful.

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<sup>6</sup> **Sources:** Foreman Facts, Labor Relations Institute of NY (1946); Lawrence Lindahl, Personnel Magazine (1949), Repeated with similar results: Ken Kovach (1980); Valerie Wilson, Achievers International (1988), Bob Nelson, Blanchard Training & Development (1991), Sheryl & Don Grimme, GHR Training Solutions (1997-2001).



Just look at the Stan Shih smile curve, named after the founder of Acer.

The essence of his concept is that a product's value lies in concept, intellectual property and business development (marketing, sales and client service).

Implementation/production is of the lowest value component in the whole production cycle.

[Source](#)

Now look at many IT companies.

So, who do you pay the most money besides your company's accountant and the corporate lawyer?

Most probably the technical people.

And what do you pay business development people get?

In most IT companies, they get paid whatever is left over after the tech folks have got paid.

What many IT business owners have a hard time to digest is that they can't make their companies super profitable just because they employ MIT computer grads with three Ph.D.s each.

There is a reason why Peter Drucker told us many years ago that...

**"Because its purpose is to create a customer, the business has two - and only two - functions... Marketing (you get paid for creating a new customer) and innovation (you get paid for creating a new dimension of performance). Marketing and innovation produce results, all the rest are costs."**

Yet, most IT business leaders spend most of their money on technical experts. They still believe they can rise to the top of their industries on technology alone.

Hopefully you know it better.

**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**

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](#)

[Perfect IT Client Profile Development Toolkit](#)

[Frame It Right: How To Structure IT Marketing Content For Maximum Buyer Action](#)