

When Pigs Sing

By Joseph Blumberg, CEO, Specifics, Inc.

Another age old question (just like, “Why did the chicken cross the road?”) is, “Why can’t you teach a pig to sing?” The answer is, it’s really a waste of time and it angers the pig. Regardless, many IT services firms wanting to take advantage of the higher margins in solution or project work have tried to teach their staff augmentation salespeople to sell solutions. In other words, they tried to teach pigs to sing. (Please excuse the editorial license I have taken with the barnyard analogy.) Without naming names, most firms were not successful making the transition to solutions, no matter how much they spent on solution sales training programs.

The recession was certainly a factor inhibiting change, but not the only factor. Contributing to this failed attempt to get into more profitable solutions work was the fact that the salespeople had an ingrained predisposition to ask for new requirements, and old habits are hard to break. They would tell clients, who they had been calling on for years, that they were now reborn as solutions salespeople and they were interested in handling the client’s IT needs and managing projects. If the client was on the verge of believing this new message but had no projects today, the salesperson reverted to old behavior and asked if there were requirements to fill. The façade broke down and the client was now empowered to negotiate rates, regardless of the type of work, in the same way they lessened the margins for all supplemental staffing resources. From every angle, it was the same old staffing business using the same resources at lower rates.

Good staff augmentation salespeople will do a good job selling staff augmentation services for staff augmentation firms. But once a decision is made to shift to solutions, few can make that transition and do it well. The nature of their prior relationships impedes their success.

In today’s services market it is extremely difficult to hold the line on gross margins. Not only is there a glut of resources in many skill sets, but also the buyers have become more sophisticated. Several years ago I was flying from Washington DC back to Atlanta and I was sitting next to a young man who worked in the purchasing function of a large company in Georgia. He told me he had just come from a training program in DC where they learned how to buy from multiple vendors. What he described, I have come to understand as the reverse auction. He told me that every firm that was bidding for a piece of work was evaluated, ranked, and then asked for their best and final offer. The lowest ranked firm was asked first, and then the next higher ranked firm was asked and told what their competitor had offered. They usually bid lower, and then a bid was requested from the next higher rated firm, until, if the system worked as suggested, they would get their top rated firm to bid the lowest price. It was a chilling scenario.

The risk of the reverse auction for the buyer is that when the development firm goes out of business before the project is done, the cost to retool and find a new vendor to meet deadlines is usually more than the original price. Thus, there is value in being able to rely on a track record of completing similar projects on time and on budget. The trick is to have salespeople who understand the issues and interests of the client and can sell value in this type of environment.

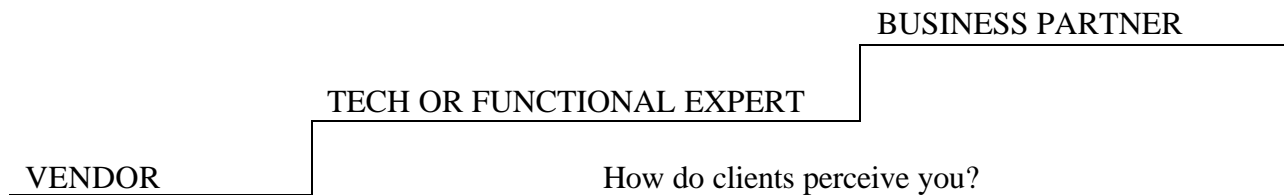
In the last two years, many companies have found themselves in a reverse auction and that is why the average gross margin, which was traditionally 30% or more for staffing services, is now

down to 27% or lower in many cases. The 40% plus margins for solutions work in 1999 now average about 33%, or traditional staffing margins.

Why do some solution firms still consistently report margins of 40% or more, while others struggle to get back to 30%? The answer is they have pigs who can sing. They did not hire a separate solution sales organization to compete with the staffing sales group. Firms that did only confused the client and bred ill will between competing sales people. Especially when technical resources came from the same talent pool, clients demanded lower rates while sales expense doubled. Such firms were awash in red ink.

The empirical evidence suggests that the most successful firms (those that suffered realistic revenue shortfalls or eked out a gain, but maintained reasonable margins) have hired and grown a single sales organization that sells solutions – development solutions, maintenance solutions, or staffing solutions. This single sales team is comprised of the few who made the switch to solutions and new hires. They understand the needs of the client, they empathize with the client’s pain, and they offer an IT solution that satisfies the interests of the client.

The key to higher margins is to change the perceptions of the customer or client. Clients, individual people you sell to, generally perceive salespeople and their firms as vendors, technical or functional experts, or business partners.



When clients perceive the consulting firm as a vendor, they believe they are buying a commodity and are willing to negotiate price and delivery. Margins of 26% to 30% are common for these accounts.

When clients perceive the consulting firm as technical or functional experts, they are buying unique skills and are less inclined to negotiate rates. When something is broken and skilled resources are available, price is not so important. Margins of 30% to 40% are reported for these accounts.

However, when clients perceive the consulting firm as a business partner who understands their organization and industry and can apply technology to avoid problems, reduce costs, or grow their revenue, rates are rarely negotiated. Margins of 40% to 60% can be found in these accounts.

IBM, through its advertising, has convinced many companies that they are the partners they need to develop e-business solutions. Their salespeople are schooled in industry-specific issues and approach clients from a business, not a technology, perspective. Thus, Global Services claims a huge backlog of high margin business.

High margin firms have salespeople who can discuss and solve business problems. They have done their homework and know how to present solutions tied to the business interests of their

clients and prospects. There is no substitute for teaching salespeople how to do their homework (or research) in order to have credible business issue discussions – music to the ears of the buyer. Solution salespeople never learned to beg for requirements. These pigs can sing.

Joe Blumberg is EVP and CEO of Specifics, Inc, a market research and consulting organization serving the IT services industry. For more information or additional articles visit www.specifics.com or call 770-391-0013.