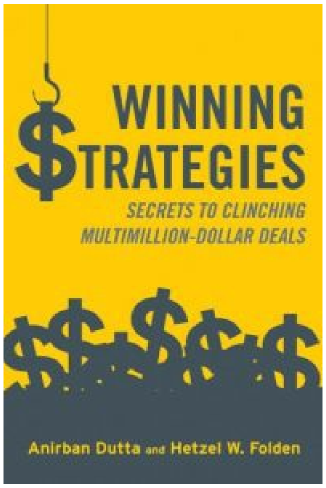

Book Winning Strategies

Secrets to Clinching Multimillion-Dollar Deals

Anirban Dutta and Hetzel W. Folden
Wiley, 2010
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Recommendation

Closing any sale is a challenge, but finalizing a multimillion-dollar outsourcing contract is a truly formidable task. Business at this level requires "Big Deal" expertise. In this instructive book, Anirban Dutta and Hetzel W. Folden leverage their vast experience in winning information technology (IT) outsourcing deals – many worth upward of $50 million – to explain the entire process in depth. Though Satyam Computer Services, the authors' former employer, became known as "the Enron of India" after its 2009 fraud debacle, Dutta and Folden weren't involved in the company's misdeeds, and their deal-making proficiency remains solid. Indeed, it comes through loud and clear in this insider's guide to large outsourcing deals. Readers will have to wade through some industry jargon to get to the book's core themes, but *BooksInShort* believes that IT professionals, commercial deal makers and anyone interested in the dynamics of deal making will benefit from the authors' sage advice.

Take-Aways

- Closing "Big Deals," that is, outsourcing contracts worth $50 million or more, requires four main steps:
- First, lay the groundwork by preparing yourself, your team and your company.
- Second, find new deals through networking and other business development activities.
- Build strong relationships with third party advisers. These "power brokers" help firms choose service providers, so they can alert you to potential deals.
- Third, structure, negotiate and close your Big Deal.
- As "deal director," assemble a bid team that includes a "financial or pricing strategist, a commercial or legal strategist, and a solution specialist."
- Create an innovative pricing model for your bid to deter prospects from making possibly damaging price comparisons between you and your competitors.
- Fourth, after you finalize a Big Deal, keep it closed by communicating effectively and by understanding all the stakeholders within the client firm.
- Essentially, winning a Big Deal and making it work depend on the people involved.
- Thus, you must continually nurture your relationships with all the participants.

Summary

"Big Deals" in the 21st Century

Globalization is reshaping how people do business, as journalist Thomas Friedman explained in *The World Is Flat*. All companies want to be more productive, and that requires "optimization" of their "supply-chain cycle." Thus, outsourcing to lower-cost, more efficient suppliers across the globe has become an exploding trend, and many nations have transformed themselves to meet the demand. India, for instance, has developed a thriving information technology (IT) services sector, with well-trained software engineers.

"The companies that are likely to dominate their industries tomorrow will have global customers, global investors, global suppliers, global employees and truly global social responsibilities."

Big Deals, or contracts worth $50 million or more, can turn an average outsourcing company into a truly great firm with skyrocketing revenue. However, designing a Big Deal requires management skills "beyond hard work and strategic aptitude." You must also understand how to manage corporate politics to accomplish your goals. When considering any Big Deal, think carefully about the three types of stakeholders who will determine its success:

1. **"The customer"** – Several factors influence whether a client company will ultimately award you a contract: its "executive commitment, clear strategy and objectives," a "structured decision process, defined retained resources," and "accountability for results." Rate each factor on a one-to-five scale, with one as the lowest score and five as the highest. If the total sum of all five scores is not 20 or greater, don't proffer a bid.
2. **"The service provider"** – Factors within your own firm also affect the outcome of a deal. Do you have an "executive sponsor," an "onsite presence throughout [the] process, integrated roles and responsibilities, creative solutions," a "dedicated cross-functional team," and a "winning attitude"? How strong are these aspects of your organization? Rate them on a one-to-five scale. If the combined score is not at least 24, forgo bidding.
3. **"The influencers"** – Now consider those who can help or hinder the sale: third party advisers (TPAs) and your competitors. Instead of using a numerical scale, simply decide if these parties will play "positive, neutral" or "negative" roles in closing the deal.

Laying the Groundwork

Big Deals center on relationships, so ensure that the people on your bid team possess the level of emotional intelligence needed to develop effective ties with clients. If you are the director of a Big Deal, follow three principles to manage your team's "emotional and cultural issues":

1. **Build a "defined sense of purpose"** – Explain the team's "common cause" in a relatable way. Help all members answer the question, "What am I doing here?" to ensure their ongoing interest in the project and to keep them from feeling "used and abused."
2. **Determine "direction"** – People need to know what steps they should take to reach the shared goal. Run your team in a transparent way. Don't cut anyone out of the information loop. Avoid exclusive or sidebar meetings. Treat everyone equally.
3. **Sustain "team morale"** – A "cookie-cutter approach" to managing your team's morale won't work. If certain employees are exhibiting negative or disruptive attitudes, consider the individual causes for their behavior, then adapt your responses accordingly.

"The mega-deal is the holy grail of the IT industry, the engine that drives the outsourcing industry."

Effective "deal directors," or leaders, don't expect recognition. They don't need to be out front getting the credit or to have others spotlight or celebrate their achievements. They win when the entire bid team succeeds. To further the team's objectives, they lead "from the rear" as great collaborators. Just as conductors bring together the diverse instruments of an orchestra to form a symphony, good deal directors unify and coordinate the various organizations and parties a deal might involve – even in difficult, chaotic circumstances. These directors can also anticipate how a deal will unfold. Directors and their bid team colleagues must be articulate and culturally adaptable. To build a great bid team, look for "ACEs," people who have the right:

- **"Attitude"** – Namely, the motivation to accomplish the team's goals.
- **"Character"** – The confidence and reliability needed for productive teamwork.
- **"Excellence"** – The drive to achieve top performance.

Scouting for Deals

Big Deals do not come along every day, and you must know about some deals, like contract renewals, months or even years in advance take full advantage of the opportunities they present. To that end, companies like Datamonitor can provide you with a list of deal renewals sorted by "customer name, industry, competency area, region, incumbent, deal size in revenue terms and renewal date." Don't expect to learn about Big Deals by cold calling. Instead, "strategically position" yourself to uncover them through your business development activities. For example, build a large network of professional contacts who can alert you to new possibilities, or expand your services to existing customers who are pleased with your work.

"In the service business it is all about people, for they are the true competitive differentiators."

One of the best ways to find new deals is to strengthen your connections with third party advisers. These "power brokers" analyze their clients' outsourcing requirements and develop strategies for them on how to "align technology" with their business needs and goals. Then they arrange for providers to present their services and capabilities. These influential consultants are a source of valuable knowledge about upcoming or potential deals. In fact, they are so important that your firm should consider appointing a "TPA relationship manager" to interact with them. Relationship managers should heed these four rules:

1. **"Set internal expectations – but do it diplomatically"** – As a relationship manager, you may need to help your company's leaders and other stakeholders define realistic goals for a deal to avoid making a poor impression on TPAs.
2. **"Practice quid pro quo"** – TPAs are more likely to assist you in finding new contracts if you perform some favor for them, such as helping them expand their clientele.
3. **"Be the guide"** – Teach bid teams how to operate in a TPA-friendly manner.
4. **"Be visible"** – To build credibility with TPAs, showcase your knowledge through speeches and articles.

The Price Must Be Right

Pricing models for outsourcing contracts vary widely, from "fixed price" and "time and material" models to "bundled and mixed pricing" and other options. However, successful models share three common characteristics. They enable the client firm to "feel safe," they help it reach its business goals and they are flexible. Beyond knowing your own company's cash flow and overhead, and setting competitive billing rates and delivery prices, you must have a handle on your human resources and these other pricing fundamentals:

- **"Margin"** – Your "total margins" should at least be as good as "historical company norms," though you may make exceptions for advantageous or groundbreaking deals.
- **"Foreign exchange (FX) fluctuation"** – Account for currency rate volatility.
- **"Cost of living adjustment"** – In any Big Deal, this calculation must be precise.
- **"Taxes"** – Clients often cover "service taxes" and "right-to-use consents."
- **"Transition costs"** – Your customers should handle these expenses, though some may ask you to provide "free transition-planning estimates."
- **"Productivity"** – The contract should call for "a minimum of 3% productivity per year."
- **"Duration"** – Accept nothing shorter than three years, but shoot for a contract that spans seven to ten years.
- **"Equipment assets"** – Consider the equipment the contract will require.
- **"Cross-sell and up-sell"** – Work annual growth based on these factors into the model.

> "Providers serious about getting Big Deals should invest in the long run and not focus solely on quarterly profit and loss."

Simple pricing is simply a bad idea because it can work against your best interests. It enables the customer to make potentially damaging price comparisons between your firm and its competitors. Instead, develop innovative price structuring. Consider these three models:

1. **"Incentive-based or gain-sharing model"** – These terms describe the same "carrot and stick" method: The pay your company receives is tied to the client's desired outcome.
2. **"Joint-sourced model"** – Also called the "co-sourcing model," this arrangement involves a "dual" provider-payment scheme. You receive "payments for incurred costs and overhead," and you also earn a percentage of the profits for reaching preset goals.
3. **"Joint venture"** – Today, many clients want turnkey solutions that you can provide by sharing a joint venture with them. For example, you may buy "an equity stake" in the client firm or you may both invest in an altogether new enterprise.

Contracts

All deal makers should understand master service agreements (MSAs) and local service agreements (LSAs). MSAs define the general "rules of business" between you and your clients, such as your "termination clause" and "legal and regulatory provisions." However, they don't cover the specific "commercial details." By contrast, LSAs describe "roles and responsibilities; scope of work; commercials; scope-specific transition; performance metrics and status; project and program management; warranties, rewards and penalties; change management"; and pricing. Third party advisers working on behalf of your clients may recommend contract terms that put your firm at a disadvantage, so be careful. Hire lawyers with broad experience on huge outsourcing contracts and, in particular, on tricky intellectual property issues.

Negotiations

Big Deals can often be as complicated and time-intensive as mergers or acquisitions. Indeed, many Big Deals are a "merger or divestiture" in the guise of "traditional outsourcing." They involve transferring some of the client's business units, along with "people, processes and intellectual capital" to the service provider. To close Big Deals, assemble a powerful negotiating team within your firm. Include the deal director, a "financial or pricing strategist, a commercial or legal strategist, and a solution specialist." Appoint one of these people – not necessarily the deal director – as your "lead negotiator" with the power to stop the negotiations at any time.

> "Even if all your frameworks and processes regarding transition and change management come up short, a genuine interest in doing well for the customer, coupled with the desire to really build friendships...will help you manage change and transition."

Negotiation requires comprehensive planning. Long before you actually discuss terms with your client, break down your negotiating goals into "a preferred position, a secondary position, a tertiary position and an unacceptable position on every issue." Prepare for the special demands that accompany multicultural negotiations. During such deals, follow these practices:

- **"Take a non-positional bargaining approach"** – For example, show that you recognize the client's concerns, but do not endorse them.
- **"Articulate fact-based information"** – Don't let emotions derail your discussions.
- **"Play the no-guessing game"** – Focus on problems you can resolve, and learn to "walk away" from those you can't.
- **"Practice reference-based persuasion, rather than status-based persuasion"** – Stick to the merits of the deal, not its degree of "executive support."

What to Do When You Win

You have closed a Big Deal. Congratulations! Now your job is to keep it closed through the "service transition, people transfer, commercial transition, organizational transition" and beyond. Ensure that you have the right "governance structure" in place. Work with the client to complete a "contract debrief" to clarify roles and requirements on both sides of the partnership. To make sure everything goes smoothly, have your staffers stay in close touch with their client counterparts. Communicate well and often to eliminate confusion. Keep your client happy by understanding the varied agendas of its stakeholders. Its chief financial officer worries about revenue. Its chief information officer wants reliability and flexibility. Its chief operating officer wishes to control costs. To meet their diverse needs, appoint competent program managers.

About the Authors

Anirban Dutta has been involved in closing numerous $50 million deals. He is a director of the Computer Sciences Corporation, where **Hetzel W. Folden** is vice president.