



Winning Deals and Improving Margins

A Pulse Survey of Professional Services Providers and Their Clients in the IT Market



Table of contents

- About the study
- Executive summary
- Key findings:
 - **Blind spots:** Key client stakeholders are left out or left behind
 - **Mind the gap:** Clients expect creative problem-solving; providers are missing the mark
 - **Go fast or go home:** Providers struggle to move quickly and may be losing opportunities before they even get them
 - **Old habits die hard:** Price is not king, but some providers still act like it.
 - **Change is the only constant:** But providers struggle to deal with evolving client and market needs
 - **Incumbency matters:** An advantage that takes work to maintain
- Additional details
- Concluding thoughts
- Appendix



About the study

Primary objective: Understand success factors and provider differentiators for large IT services deals

Demographics



Cross-industry

125

Client
respondents

\$5M+

Annual deal
value

38

Provider
respondents

\$250M+

Respondent firm
annual revenue



Executive, director,
and manager
level respondents

50+ major factors to deal success and provider differentiators examined, categories include:*



Stakeholder Alignment



Negotiation and Contracting



Governance



Delivery



Skills and tools



Executive summary



Most deals disappoint expectations

The majority of respondents (40% of clients and 65% of providers) found their deals underperformed expectations by at least 20%¹

The top quartile of respondents, on average, realized approximately **1.5x more value** on their deals compared to those in the bottom quartile².

Major barriers to winning deals and improving margins³



Insufficient building and maintaining of stakeholder alignment



Gaps in uncovering customer needs and creatively problem solving



Slow decision making and contracting



Overly focused on price (vs value)



Inadequate management of changing client and market needs



Too complacent as an incumbent

1. Through project delays, poor quality of delivery, scope creep, etc.
2. Refer to “Additional details” section for more information

3. 20+ barriers, 8+ drivers for replacing provider incumbents, and 7+ provider differentiators examined. Refer to the Appendix for a full list of attributes examined.



Executive summary (continued)



Gaps are Amplified For Business Transformation Deals

Over 50% of respondents indicated that the purpose of their largest deal was business transformation

Compared to cost saving driven projects, business transformation projects typically:

Major barriers to winning deals and improving margins



Insufficient building and maintaining of stakeholder alignment



Gaps in uncovering customer needs and creatively problem solving



Slow decision making and contracting



Overly focused on price (vs value)



Inadequate management of changing customer needs



Too complacent as an incumbent

Have more diverse stakeholders

E.g., more functions, people, and resources, requiring more extensive alignment work

Are more complex

E.g., more competing priorities and more diverse problems (beyond technical) that need creative solutions

Are not “business as usual”

E.g., more unexplored decisions that need new agreement structures to match (vs traditional cost focused contracts)

Are not won just on savings

E.g., cost reduction is not the main project goal, requiring approaches beyond traditional price-centric teams

Are more fluid

E.g., more uncertainties, less defined outputs, and rapidly evolving business needs that require agile management

Are just the beginning

E.g., incumbents with deep client engagement are more trusted to provide continuity and follow-through

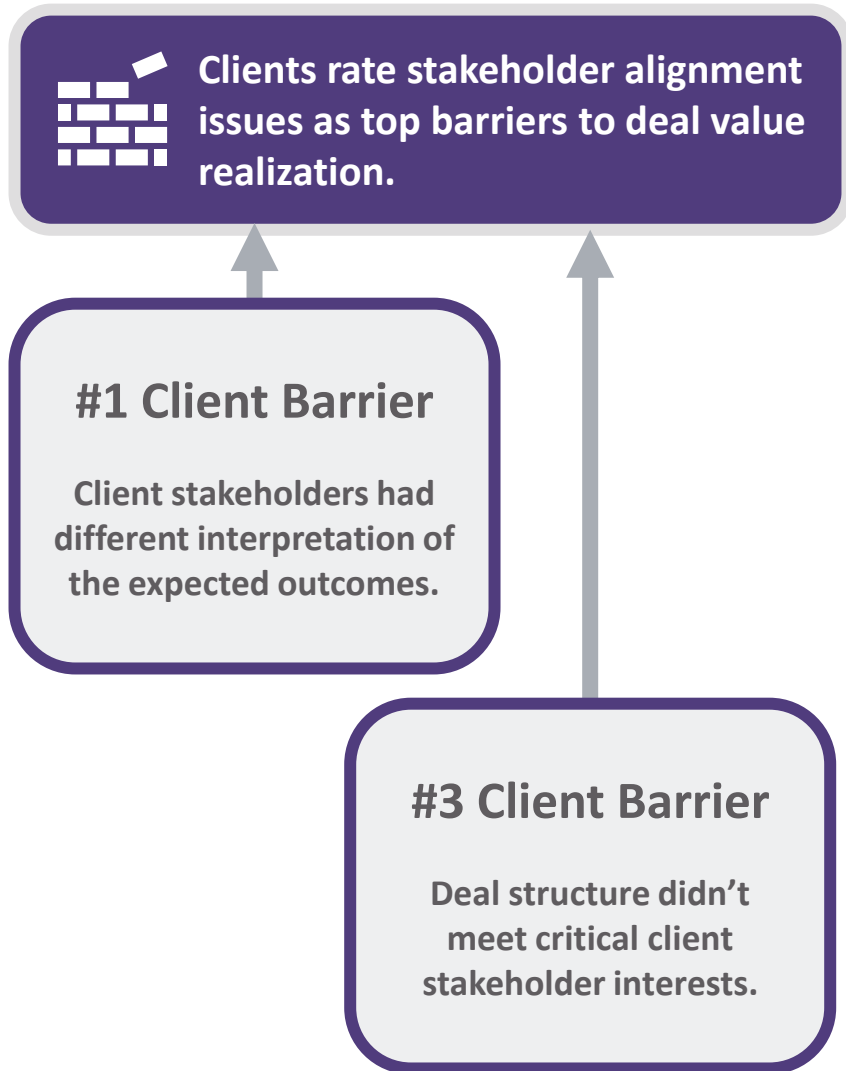
Amplifying factors



Key findings



Blind spots: Key client stakeholders are left out or left behind



Implications for Providers

Sales Teams

- Client stakeholders don't feel properly consulted in the deal development process, or client interests are not truly being understood (though there may appear to be alignment).
- As a result, deals may be "designed to fail" during delivery, which damages chances of renewals and follow-on work.

Delivery Teams

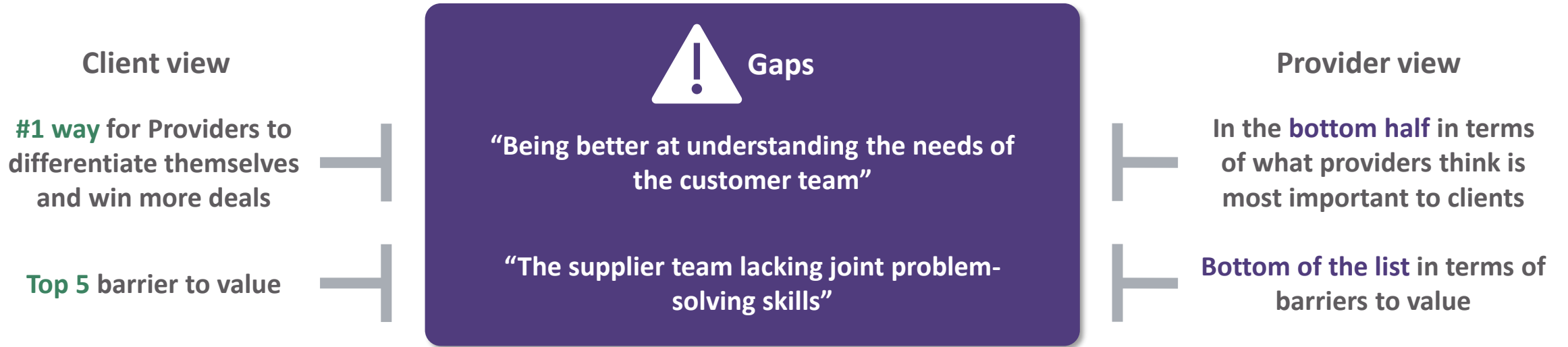
- There are gaps in hand-off between sales, contracting, and delivery teams, project needs change, or expectations may not be properly managed over the course of a project.
- As a result, this increases risks to delivery quality and of scope creep, eroding team reputation and margins.

Takeaways

- **Prioritize skills** – Stakeholder alignment with clients (and internally) is widely recognized as critical, yet the skills needed to operationalize it (stakeholder influence, effective storytelling, managing conflicting priorities, etc.) are often neglected and need to be a priority.
- **Enhance governance** – Formal, streamlined, and cross-functionally aligned processes for engaging client (and internal) stakeholders early and throughout a project should be in place, especially for transformation projects where more people and functions are engaged.



Mind the gap: Clients expect creative problem-solving; providers are missing the mark



Implications for Providers

Sales Teams

- There is a disconnect between Client expectations and Provider performance when it comes to understanding client needs and creative problem-solving.
- Strengthening these skills provides an edge over the competition in the sales process.

Delivery Teams

- Delivery mistakes, challenges, issues, and how they were resolved becomes most poignant in a client’s mind.
- Strong skills (or a lack thereof) in listening, understanding, and problem-solving are the foundation of a firm’s reputation.

Takeaways

Institutionalize capabilities - With the advent of “solution selling”, mature provider sales teams are shifting mindsets; however, success often relies on individual abilities with little focus on developing institutional skills needed to consistently execute on the concept. This is even more so for provider delivery teams, and especially for transformation projects where problems are more complex and diverse.

Go fast or go home: Providers struggle to move quickly and may be losing opportunities before they even get them

#2

“Faster decision making” was rated by Clients as the #2 way for Providers to improve their chances of winning deals. Contracting speed was noted to be especially important.

“We know which providers move faster or slower. It doesn’t really show up on any formal selection criteria, but some providers aren’t even going to hear from us because we know it will take too long.” – Business Unit Leader at Fortune 100 Financial Institution



Providers recognize the criticality of speed in contracting and rank “Being responsive and making decisions quickly” and “Having a flexible contracting approach and being agile to changing business needs” as the most important attributes to clients during supplier selection.



Implications for Providers

Sales Teams

- Slow and cumbersome contracting processes may be causing the team to lose deals or even precluding the firm from receiving opportunities in the first place.

Delivery Teams

- Day-to-day interactions over the course of delivery and the speed of issue resolution and agreed changes build the clients’ perceptions and impact future business.

Takeaways

- **Build infrastructure** – Providers need a streamlined decision-making process (with deal tiers, routing protocols, empowered delegates, etc.) to reduce the number of “cooks in the kitchen” and overall internal negotiation time. This is especially important when pursuing transformation projects where the firm will be faced with many new and unexplored questions.
- **Enhance risk management** – Decision-making processes needs to be supported by a cross-functionally aligned, data driven, risk management framework to preempt lengthy debates over the acceptability of real and hypothetical risks.
- **Manage cultural change** – These changes (e.g., some stakeholders giving up direct control) can be uncomfortable and will also require active management to succeed.



Old habits die hard: Price is not king, but some providers still act like it.



While price is important, drivers like changes in business direction, higher quality, better solution, and decline in relationship quality all ranked as having more impact on replacing an incumbent supplier.*



Providers continue to see an over-focus on price as an internal challenge. “Our negotiators focused too much on cost or margins (versus value)” was self-reported as a top barrier to providers realizing deal value.



Implications for Providers

Sales Team

- Be careful of how much your sales strategy relies on price; for more mature clients, this may not be the focus.
- For less mature clients where price appears to still be king, skillfully helping the client expand their thinking could open new approaches to compete.

Delivery Teams

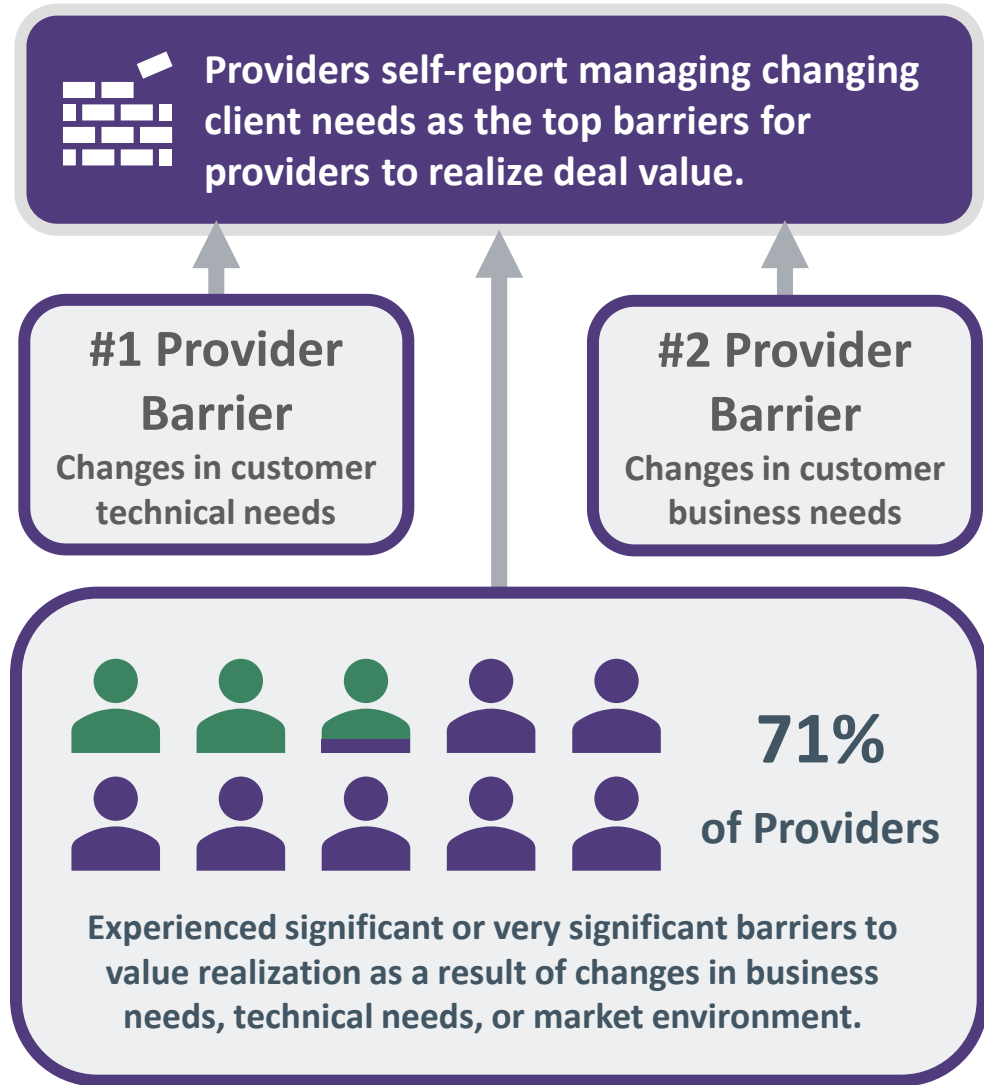
- Bad news for incumbents: the top reasons for replacing an incumbent all start with the delivery process.
- Good news for incumbents: your teams can put in place measures preemptively to address these concerns.

Takeaway

- **Implement coaching and applied training** – Changing mindset and behaviors built up over decades requires structured challenging of assumptions and consistent reinforcement of new, learnable skillsets.
- **Enhance governance** – Expecting teams to focus beyond price is unrealistic (even with business transformation deals) when most traditional metrics, incentives, and management approaches revolve around the nominal value of the deal.



Change is the only constant: But providers struggle to deal with evolving client and market needs



Implications for Providers

Sales Teams

- Designing the deal upfront in a way where there is room for changes and adjustments is critical, especially when transformation is the driver.

Delivery Teams

- Anticipating and managing change (in project scope, timing, objectives, etc.) needs to be a part of the delivery business model.

Takeaway

- **Integrate change management into the deal process** – E.g., Sales and Contracting need to engage Delivery teams early to discuss likely changes and potential impact; robust post-signature change governance mechanisms should be implemented with leadership and aligned with clients; and formal joint hand-off between Sales, Contracting, and Delivery teams should be in place, especially for transformation deals where business and market needs evolve rapidly. Relying on individual and team heroics is neither sustainable nor profitable.
- **Institutionalize skills** – Change management (e.g., building room for change into a project, adjusting scope while maintaining margins, sunsetting the status quo, influencing stakeholders) is everyone's responsibility. Having specialized subject matter experts (e.g., a change management office) is a strong start, but don't neglect efforts to enhance the skills of front-line teams.



Incumbency matters: An advantage that takes work to maintain

64%

Percentage of additional value (cost savings, innovation, etc.) needed to replace an incumbent according to clients.

Incumbents have a significant advantage over their competition. However, **providers often approach extensions and renewals haphazardly, without formal planning and deliberate strategies to mend gaps and adapt to client changes, giving up their edge.**

#1

Reason for clients when replacing an incumbent provider: Change in internal business strategy and direction

#2

Reason for clients when replacing an incumbent provider: Competitor offered higher quality



Implications for Providers

Sales Team

- Start strategizing for renewals well before project/contract end, while there is still time to strengthen the business case for working with your firm.

Delivery Teams

- Important to build client relationships and demonstrate client knowledge and value that nonincumbents can't provide to maximize chances of successful renewals.

Takeaway

- **Implement a lifecycle management process** – Ensure extensions and renewals are formally discussed and planned with ample time to influence key client stakeholders if needed.
- **Establish relationship health checks** – Ensure there is formal mechanisms to gauge relationship status from both internal and client perspectives (beyond technical performance metrics)
- **Build a changed-based mindset** – Build skills to embrace client changes (vs one that overemphasizes standardization and stability for the sake of efficiency)



Additional details



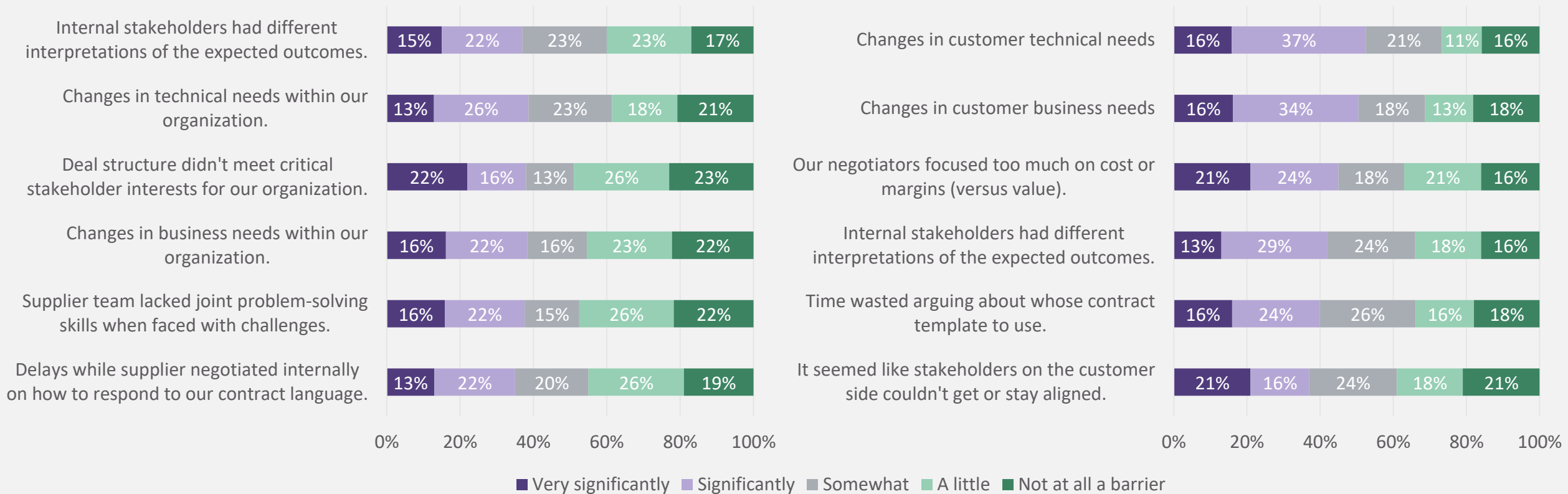
Most significant barriers to value

Ranked from most to least significant

To what extent were the following areas a barrier to realizing value?

Buyer

Provider

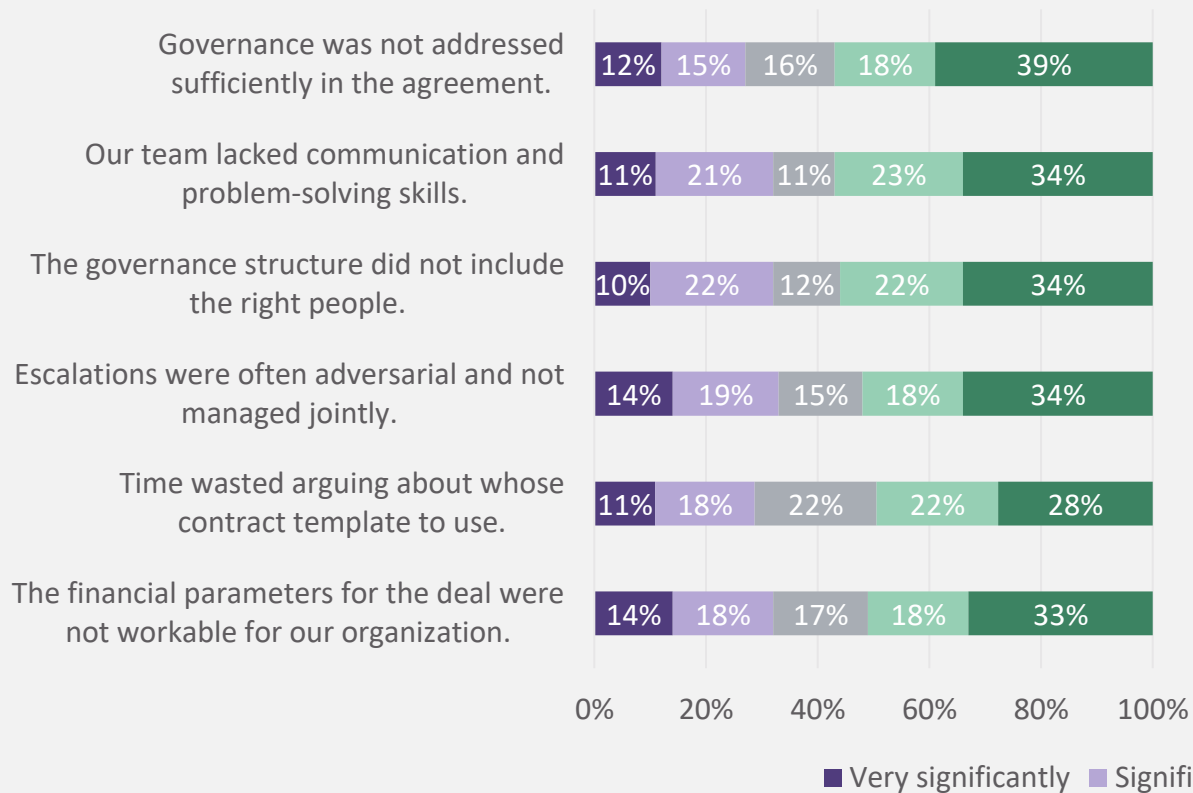


Least significant barriers to value

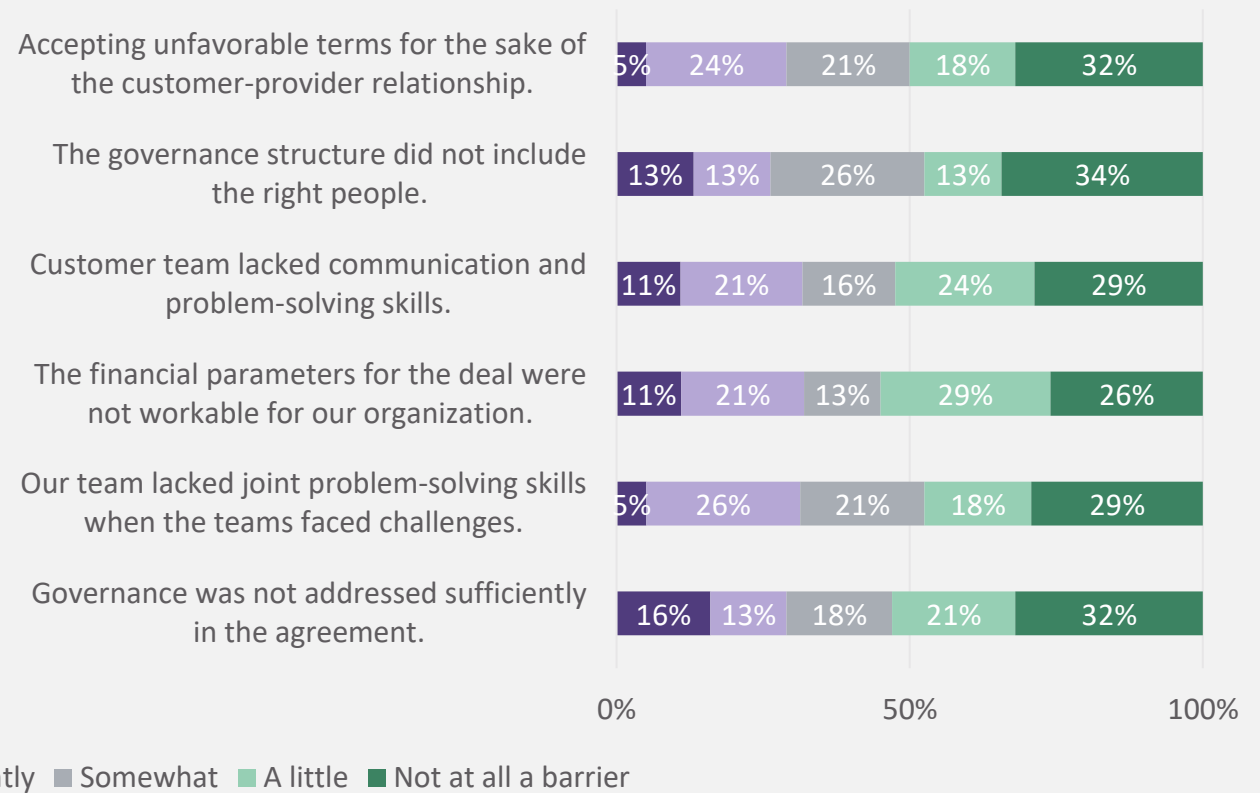
Ranked from least to most significant

To what extent were the following areas a barrier to realizing value?

Buyer



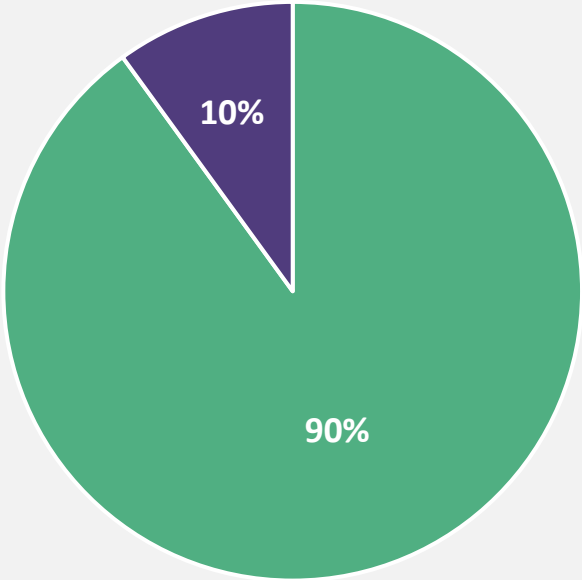
Provider



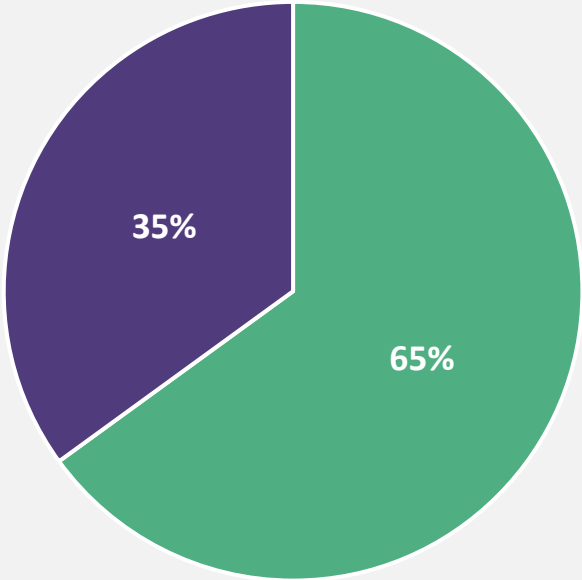
Top vs bottom performers

If the expected value of the deal at signing was 100% (from expected revenue, savings, business value, etc.), what percentage (%) of that was actually realized as it was executed?

Top Quartile



Bottom Quartile



■ Average realized value ■ Average unrealized value



Concluding thoughts



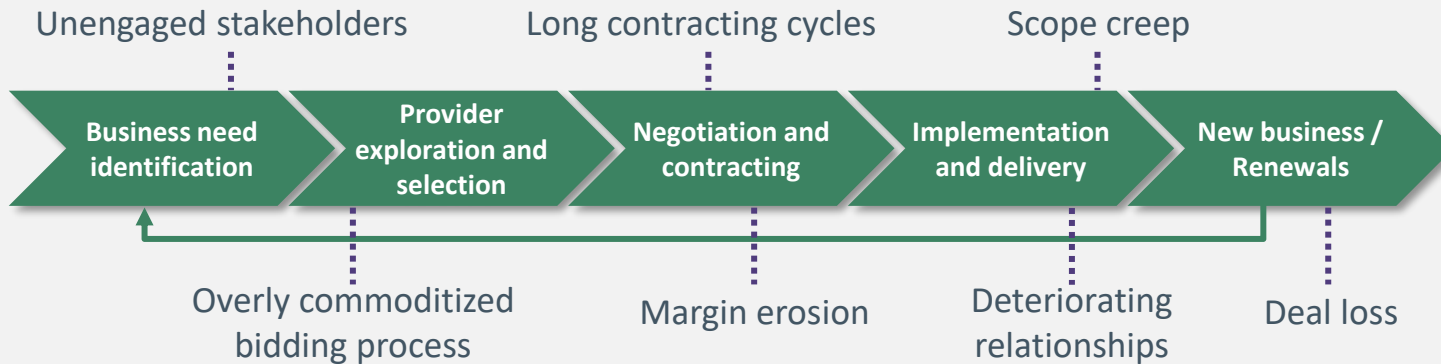
Concluding thoughts

Study results echo Vantage's own client experiences with both customers and providers of IT Professional Services. The study helps validate that the challenges faced by them are industry wide, and that they appear to be increasingly severe with larger deal sizes and multi-country deals, especially when they are for business transformation (vs cost reduction) in nature.

Major barriers to winning deals and improving margins



Example symptoms across the deal lifecycle



These challenges can manifest in different ways across the deal lifecycle and may require a coherent effort across multiple functions to properly diagnose and resolve. Much of what we have learned over decades of supporting remediation efforts is that these costly challenges can be anticipated and prevented or mitigated earlier in the process.



About Vantage

Our work spans development of strategies, their execution, and the capabilities required to sustain them



Solutions include:



Partner and Ecosystem Analysis



Optimizing Processes and Organizational Structures



Diagnostics and Benchmarking



Negotiation Support



Relationship Remediation



Client Service Improvements and Deal Renewals



Transformation and Change Management



Training and Coaching

We have:

Advised **5** of the top **6** global audit and accounting firms

Counseled a **quarter** of the **top 20** global law firms

Helped **half of the top tier** IT services and outsourcing firms

Visit us at: <https://www.vantagepartners.com/professional-services>



Appendix



Barriers to value examined

Stakeholder alignment

1. Deal structure didn't meet critical stakeholder interests for our organization.
2. Stakeholders on our side couldn't get or stay aligned.
3. It seemed like stakeholders on the other side couldn't get or stayed aligned.
4. Internal stakeholders had different interpretations of the expected outcomes.

Negotiations and contracting

1. Time wasted arguing about whose contract template to use.
2. Delays while supplier negotiated internally about how to respond to client contract language.
3. Disagreements about market norms or what is "standard".
4. Overly aggressive demands and posturing by lead negotiators.
5. Our negotiators focused too much on price or savings (versus value).
6. Accepting unfavorable terms and conditions for the sake of the customer-provider relationship. (Provider only)

Delivery

1. Changes in customer business needs.
2. Changes in customer technical needs.
3. The financial parameters for the deal were not workable for our organization.
4. There was a change in the business environment.

5. Issues with delivery partners. (Provider only)
6. Sacrificing margins (e.g., absorbing costs or scope overruns) for the sake of the customer relationship. (Provider only)

Governance

1. Governance was not addressed sufficiently in the agreement.
2. Communications, meetings, and interactions were not at the right pace.
3. The governance structure did not include the right people.
4. Sponsoring executives were not well informed of working team challenges.
5. Escalations were often adversarial and not managed jointly.

Skills and tools

1. The supplier team lacked the communication skills required to manage through difficult conversations.
2. The supplier team lacked joint problem-solving skills when the teams faced challenges.
3. The supplier team lacked empathy towards challenges faced by the client team.
4. Customer team lacked similar skills as listed above.



Supplier differentiation factors examined

Improving provider chances of winning deals (other than better pricing and technical competency):

1. Providing more information and guidance about market benchmarks and norms
2. Being better at understanding the needs of the customer teams
3. Faster decision making
4. Doing more in terms of guiding the customer team through tough deal design decisions and trade-offs
5. More creative problem-solving
6. More discipline on reviewing and constructively challenging project requirements
7. Having an easier and faster contracting process

Besides price and technical competency, importance of provider attributes when selecting a provider

1. Listening actively and genuinely trying to understand our business needs
2. Problem-solving creatively and collaboratively
3. Being responsive and making decisions quickly
4. Having a flexible contracting approach and being agile to changing business needs

5. Demonstrating an ability to say “no” and constructively challenging the customer team (e.g., in terms of project requirements)
6. Guiding the customer team through tough deal design decisions and trade-offs
7. Providing more information and guidance about market benchmarks and norms

Reasons why an incumbent provider was displaced by a competitor

1. Change in internal business strategy and direction
2. Change in provider’s strategy and direction
3. Competitor offered higher quality
4. Competitor offered better solution
5. Competitor offered lower price
6. Lack of flexibility by incumbent
7. Lack of innovation by incumbent
8. Decline in quality of relationship with incumbent
9. We didn’t start talking about renewal until they were ready to go out for bid (Provider only)

