Size Matters When Choosing A Partner

In this article we discuss the importance of selecting the right partner organisation to provide your required services, after all they will become an integral part of your workforce.

In this new world that we are operating in there are many factors that should be taken into consideration when choosing an outsourcing partner, those that originally existed e.g. capability, capacity, culture, price, but also ones that have come to afore due to the global pandemic e.g. geographical spread, supplier resilience, commercial flexibility. However, even pre COVID 19, one factor that often got overlooked is size of organisation. Over the past few years I have heard grumbles from CIOs and IT delivery managers where they say that their IT partner is not giving them the attention that they deserve or indeed what they claimed they would in that all important 'Deal Making' presentation.

The size of a company will impact the relationship in many ways:

- Organisation structure
- Governance
- Behaviours and Culture
- Decision Making
- Processes

Also, all of these are likely contributing to the quality of relationship between two parties. If the above are aligned, or not too far apart, then assuming the key individuals wish to make the relationship work, then success should be on the horizon. If, however the two organisations are 'out of kilter' then there could be trouble ahead. The most common occurrence of this problem is when small buying companies, the 'Client' buy services from large IT service providers, the 'Supplier'. So, what drives the supplier, or in human terms the Salesman / Account Manager? It is all about, number of new customers, deal size, deal length and margins – not a 'Eureka' moment I know – but true nonetheless.

So, what drives the client or in human terms the CIO / Shared Services Director? quality of service, price, capability and dare I say – in most cases least risk, or playing safe. In the 1980s one of the most powerful business phrases was coined – "No one ever got fired for buying IBM". So, for a very long time this phrase was a recurring nightmare for all non-IBM hardware salesmen, even if their hardware was superior – IT departments across the globe favoured IBM kit. What we see today is that same logic being applied to other aspects of the IT business world, Consulting and IT Service provision, albeit the providers have increased in number from one to many, reflecting the global growth in IT Service provision over the past 15 years, particularly from India and Eastern Europe.

So back to the deal – I mentioned above what drives the supplier, so after the euphoria of the win has long gone, the signatures have dried and the honeymoon period draws to an end – it is the margins, the deal size and prospect of new business that matters, the erosion of margin is considered a sin by the supplier's Corporate Finance team. On a large account there will be flexibility in the numbers to make the figures work somehow – e.g. by changing some of the team members to 'lower skilled' employees, the skills maybe lower, the bill rate will also be lower, but the margin invariably will be higher, or indeed more offshoring, where again the margin will be higher. However; when it comes to a small account everything becomes more visible and there are fewer options to help ease the burden. This is the main reason why in many cases large suppliers are not the right answer for smaller clients. It will be very hard for the supplier account team to justify to their Corporate Finance team that they should continue to invest into the account when there is little opportunity for growth in business. The relationship is likely to suffer and service levels begin to decline.

There Is Light

A few years ago, a client of mine 'bucked the trend' when it came to supplier selection. We were very fortunate to be working with a small group of people from a large corporate who had a refreshing outlook on the supplier market, they were very clear that they did not want the 'big boys' because the deal size (lower £ms) did not warrant it (there were also a number of other soft factors, cultural fit, people development etc ..), but also because they wanted to be assured that in the event of there being a problem, or if they needed to ramp up to deliver a regulatory driven project, they would be the focus of attention of the Supplier rather than being the last one in the queue. They wanted to be on the radar screen of the supplier senior management team – for the right reasons. So, they ended up signing a contract with a smallish (circa 500 employee IT services company), knowing that they would instantly become a key client and therefore would receive the attention that their brand warranted. To date, the delivery continues to be good and the relationship is thriving and the supplier company has grown in size.

One CIO said to me many years ago that in the event of getting into problems on a project, it is so important that the supplier has the necessary skills, capability and bandwidth to 'get you out of trouble' – that is so true – all of that is relative to the size of the deal and the project - so it does prove the old adage that 'Size Does Matter' but for that to hold true, the problem must be visible to the supplier in the first place and the client account valued...

Questions for Outsourcing Decision Makers

1. *How do we assess and balance the advantages and challenges associated with choosing a larger, more established IT service provider versus a smaller, niche provider to ensure that our organization receives the attention and focus it needs?*
2. *What strategies can we implement to foster a successful and mutually beneficial relationship with a smaller IT service provider, ensuring that our account receives the necessary attention and support from the supplier's senior management team?*
3. *How can we assess the visibility of potential problems and the supplier's ability to handle and resolve them based on the size of the outsourcing deal and the project, and what mechanisms can we put in place to address potential risks proactively?*

If you want to discuss these questions, or any other outsourcing challenges please do email us at experiencematters@ascea.co.uk and we can set up a call with you.

This article is taken from the short book **IT Outsourcing** – **11 Short Steps to Success** by Richard Cribb – available on Amazon. To view and purchase - Click Here

Book review:

"Excellent summary of the critical success factors for IT Outsourcing .... A must read ..

Tim Laverick – former Head of Vendor Management – Home Retail Group