SECTION I

# CREATING THE FOUNDATION FOR WINNING DEALS

CHAPTER 1

# What's the Big Deal?

## *A Primer on Strategic Deals*

### Selected Big Deal Headlines, 1999–2007

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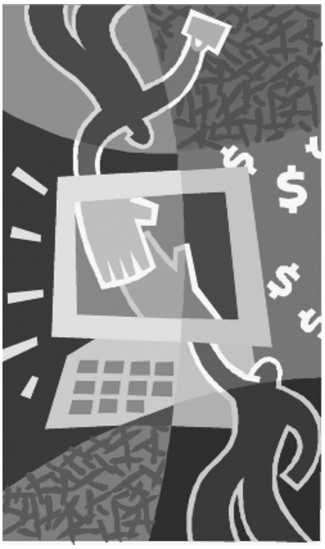

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- Aerospace and defense giant Raytheon awards major IT outsourcing contract to Computer Sciences Corporation (CSC); contract estimated at nearly US$2 billion (1999)[1]
- CSC receives US$100 million contract to manage the IT environment at Children's Hospital of Los Angeles (2001)[2]
- Motorola awards US$1.6 billion deal to CSC to outsource infrastructure services (2003)[3]
- BT Concert, a British Telecom and ATT US joint venture, enter into an agreement with CSC to manage the venture's IT applications (2003)[4]
- Ascension Health, the largest Catholic hospital system in the United States, awards IT deal to CSC projected at more than US$1 billion (2004)[5]
- Satyam wins major contract for share of Citigroup's NAIT applications portfolio (2006)[6]
- Satyam wins big deal down under: Qantas Airlines outsources applications work (2007)[7]
- Reuters undertakes major business transformation; Satyam receives ten-year contract worth nearly US$300 million of new business (2007)[8]

## What's a Big Global Sourcing Deal?

The first and foremost understanding of closing a large outsourcing (preferably called global sourcing, because we are theoretically professing use of the best resources from all over the world) deal is to recognize that it is a team accomplishment. We often hear the question, "What's the biggest deal you closed?" The editors at Wiley asked us the same question when we were discussing the need for this book. All of the deals mentioned in the headlines above are part of our legacy in closing large global sourcing deals. But it is a colossal overstatement to say that the Big Deals mentioned earlier were closed just because of our individual merits. The wins, as in any Big Deal, were completely a result of teamwork. It is therefore the thesis of this book that we have taken the hard work of many, from within and outside our industry, and boiled it down to a collection of conclusions and lessons learned from "living the deals."

A Big Deal is generally viewed as US$50 million or more in total contract value (TCV). TCV is the sum of all contracted revenue over the

| | January to October 2008 Total | |
|---|---|---|
| **Total, All Deals (US$)** | **Total No. of Deals** | **Total Contract Value in US$ Billion** |
| Contracts ≥$1 billion | 26 | $31.18 |
| Contracts ≥$500 million & <$1 billion | 56 | $39.59 |
| Contracts ≥$250 million & <$500 million | 59 | $19.90 |
| Contracts ≥$50 million & <$250 million | 290 | $29.54 |
| Contracts <$50 million | 1094 | $18.44 |
| Total, all contracts | 1,525 | $138.65 |
| Deals over $50 million | 431 | $120.21 |
| % of deals over $50 million | 28% | 87% |

**Figure 1.1** Contract Summary for Big Deals Closed Globally from January to October 2008

term of the contract (for example, US$100 million in annual revenue contracted for ten years is a US$1 billion deal).

You will see that the big deal surrounding Big Deals is that they are truly the growth engine for your firm to reach ultimate greatness. Globally, Big Deals represent nearly 90 percent of the total value of all new outsourcing deals contracted annually, while the number of Big Deals represents only about 30 percent of all deals awarded (see Figure 1.1).[9]

When our former employer, Satyam, started the Strategic Deals Group (SDG) in 2005–06, the chairman lobbed a minimum contract size for a Big Deal of US$250 million TCV onto the table. This amount was up for discussion when planning the goals and objectives for the coming year with a commensurate "target" for the organization to close a certain amount annually. Because the business units (BUs) had historically closed some Big Deals with several Fortune 500 companies to lay the foundation for Satyam's meteoric rise in revenues, the target did not seem unreasonable, at least to Satyam corporate. The view was, of course, different if you were responsible for sustaining the closure rate year after year. Using our best negotiation skills (often required more internally than externally), we pointed out that the industry was reporting, through analysts and advisers, that US$50 million TCV was a more appropriate definition for Big Deals. The name of the game was to leverage the company's investment in expert resources to close

Big Deals. The definition for closing Big Deals ultimately came to be defined as "strategic deals": those with a US$50 million TCV and above, or a lower TCV if the BU leader deemed the pursuit strategic to his business. SDG became a partner of the BUs in pursuing those strategic deals.

Thinking big was always the theme when we targeted higher-value deals for their growth potential. However, a more important question became the center of discussion: Were these deals required for sustainable growth? Clearly, a revenue or top-line financial statement gets attention. However, is the capital required for the resources and time to pursue these types of deals justified? What if you don't win the pursuit? Then money is directly lost from earnings on the bottom line. Many emerging Indian information technology (IT) global players, who were riding the wave of strong offshoring, cast some doubt on the need to pursue large deals for growth. The formative years of "India Inc." (a colloquial term used by the global media to refer to the corporate sector of India), in the mid-2000s, illustrate that the India IT players were being rather coy with their public comments related to pursuing Big Deals. Here are two views about Big Deals from industry giants that were floating around in the market in those days:

- Infosys believed that mega deals were not necessary to grow at 30–35 percent in FY2007 (although they had started a large deals group as early as 2003).
- Cognizant preferred *hunting licenses* rather than large deals, where upfront investments may be required.

Here are a few responses to the ever-vigilant investor, focusing on margin dilution and risk, related to the big global sourcing company experiences with bigger and bigger deals:

- Tata Consultancy Services (TCS) believed that, on the Pearl Group deal (a mega deal then), even though they were establishing and stabilizing themselves, the margins were a little less when compared to their overall margins in other deals during the same initial stage. But as TCS improved the processes, they expected that the margin in the Pearl deal would become equivalent to the margins they were used to getting. TCS expected the margins in this deal to move up to company averages within 2.5 to 3 years with increasing offshore proportion.[10]

- The Infosys-led ABN AMRO deal, contracted in April 2005, was largely margin-neutral over the deal and was diluted initially. We believe the margin in that deal was low in the initial two to four quarters, until the knowledge transition was completed, but it should be almost at company average over the life of the deal.
- Wipro always expected pricing to be margin-neutral on a mega deal it signed with General Motors in February 2006, and with no unlikely impact on margins in the long run.

The general sense from these statements is that the pursuit of large deals was certainly a catalyst to accelerating revenue growth in these globally emerging firms. The case for expecting a higher revenue growth rate from the pursuit of Big Deals is borne out by companies growing at more than 35 percent, in spite of an absence of large deals in the past. On the other hand, pursuing large deals without a balance of smaller deals leaves companies exposed to the business variations of a few deals, as opposed to a better balanced portfolio of many customers. The industry was torn; are Big Deals important or not?

## Are Big Deals Important?

Categorically: *yes*. Undoubtedly, if one aspires to build a dominant presence in any market, the opportunities surrounding large deals should be pretty obvious. It is equally important to understand the pitfalls in these deals, especially in the context of endeavoring to enhance margins and build sustainable revenues.

The possibility of recouping lower margins early in a Big Deal, with higher margins over the life of the deal, is a fundamental productivity expectation. But it also brings a risk to longer-term deals for the service provider. Clarity is needed, in terms of three critical factors:

1. The pace at which margins can be enhanced during the tenure of the deal.
2. The parameters that would enable margin enhancement with respect to utilization; a higher offshore presence of employees; pricing; a younger workforce; and sales, general, and administration (SG&A) reduction.

3. Assurance that future cost increases, such as wage inflation, will be absorbed without leading to a dip in margins over the life of the deal.

One final note on the finances of Big Deals: pick your game carefully. A comment about pass-through system integration deals will outline our reasoning for saying this.

Pass-through deals can be explained with a simple example. Suppose you sign a US$100 million deal in which SAP software costs US$90 million and your services revenue is US$10 million. The US$90 million is passing through, because SAP gets the revenue, although all of the US$100 million shows as the total deal size for your company. (For the purpose of this discussion, we shall assume that such deals refer to transactions wherein the pass-through component is 80–90 percent of the value of the deal.)

We do not generally recommend such deals when:

- The value added from such deals is limited.
- The pass-through, being nil or having a low-single-digit margin, means the overall margin would be rather unattractive with the impact of pulling down margins at the company level.
- Our experience with the equipment business is limited, and for a low margin we may be picking up significant risk from a performance perspective.
- There could be a mismatch of cash flows that could put additional pressure of recovery on us.
- The move will not enable any favorable response from the investment community, given that it is margin-diluted.
- The multi-national players—IBM, EDS, and CSC—are not too keen to pursue such deals with the same vigor as they did in the past, because of the abovementioned reasons.

However, our recommendation is that when you do choose to pursue Big Deals, do not forget what your drivers are and that you are in it to win a Big Deal. The story in Box 1.1 describes a real-life example.

The bottom line is that Big Deals are an effective strategy to accelerate growth. Large deals are important to both buyer and seller, although the impact of a particular deal is relative to the size of each player.

### Box 1.1: When to Walk

Early in Hetzel's negotiating career, he was attempting to close negotiations on a deal with about US$100 million TCV. Hetzel was working for a service provider who wanted to win the deal badly. The service provider was used to getting Big Deals.

During the course of the negotiation, the client became more and more inflexible on issues that Hetzel, typically, would not concede on, even with very large clients. Hetzel recommended his company no longer pursue this strategic deal. The business unit leaders chose to walk away from it, on the basis of Hetzel's recommendation.

The customer called back after a few days and wanted to start re-negotiating again, with a more win-win attitude. Eventually, the deal was successfully closed and delivered by Hetzel's organization.

The moral of the story is never to close a bad deal. The lesson: never underestimate the time and effort to close a deal. *All* deals are Big Deals in their importance to those involved in the closing.

## Global Economics and IT Services: The Established vs. the Challengers

Legend has it that the term *offshoring* was coined by IBM during one of its large outsourcing deal pursuits at Kodak. We will leave it to the historians to analyze exactly when outsourcing and offshoring of IT began. What we do know for sure is that Ross Perot founded EDS in the 1960s and made a big splash by receiving lucrative Big Deal contracts from the U.S. government computerizing Medicare records. EDS went public in 1968, and the stock price shot up from US$16 a share to US$160 within days. *Fortune* magazine called Perot the "fastest, richest Texan" in a 1968 cover story.[11]

Similarly, CSC spun up into megaspace in the early 1970s, by transitioning the entire IT shop of General Dynamics. IBM Global Services transformed its existing operations to focus on services, as did Hewlett-Packard and Accenture (a spinoff from Arthur Andersen's consulting practice). However, one thing became very clear on the world stage in the 1970s and 1980s: India had quietly and methodically spawned a services industry of IT professionals, graduating thousands of IT software engineers annually from its great universities and selling their skills internationally.

The journalist and author Thomas Friedman made sense of the modern trends in globalization in his bestselling book *The World Is Flat*. A "flat world" to us means the ability to deliver products or services for our customers by leveraging the best talents and resources from all over the world at an appropriate price.

As simple economies become more complex and multiple steps are required to provide your products or services, "specialties" and "commodities" are introduced. Providing a specialty commands a premium from the buyer, but as specialties become commodities, the opportunity arises to "make or buy" each step, to achieve the ultimate quality, price and utility for your customer.

Before the flat world emerged, the make-or-buy decision was simply a domestic issue, meaning your neighbor would typically make the car component you would later buy inside his factory. Post-flat world, another neighbor a few streets down who runs his own tool shop makes the same item for less as a supplier or subcontractor to the factory. He has learned the specialty skills, along with many others, of producing a sub-element of the car at a lower cost than the factory, therefore making it more of a commodity. This commodity is made available to the factory to buy and assemble or integrate into the final car at a lower price.

When all is said and done, optimization of this supply-chain cycle is called productivity. It spurs on innovation and allows the global standard of living to rise. However, with nations such as India, China, Brazil, and Russia emerging as economic powers, it may also prompt economic challenges between nations; standards of living cause work content to move around the world to achieve that ultimate supply-chain value for the global consumer. Yesterday, only major corporations were worried about global sourcing, international procurement, and foreign offsets. Today, with freedom of movement and lower-cost global supply chains, even a local automotive parts maker is likely to buy some products globally or, in the worst case, buy nothing and be completely replaced by the cheaper provider.

The maturity of any industry is a function of its constant metamorphosis into a more efficient, creative delivery system for its consumers. You need not look too far back in history to validate this message. The manufacturing industry in North America, and in particular the automotive industry, was forced into this game as Japan emerged on the global stage after World War II.

This introduction of free exchange of assets caused another phenomenon in the early days of manufacturing, known as make-versus-buy. Do you send a requisition to your purchasing department to buy subcomponents, or do you buy only the raw materials and use your own resources to make them? As long as businesses are growing and the make-versus-buy process does not upset the human-capital equation (translation: job losses), then it is a pure capital competition to provide the best value at the lowest total cost.

The companies that are likely to dominate their industries tomorrow will have global customers, global investors, global suppliers, global employees, and truly global societal responsibilities. Will today's American car manufacturers—General Motors, Ford, Chrysler—survive the challenges posed by Toyota, Honda, Hyundai, or Tata from India? During publication of this book, Tata was in the process of creating the world's cheapest car, the Nano. Similarly, the traditional big six IT service providers—IBM Global Services, Accenture, EDS, HP, CSC, and Capgemini (and in Europe Atos Origin)—face serious challenges from the India Inc. players. Today, TCS, Wipro, HCL, and Cognizant (together making up India Inc., for all practical purposes) all have more than US$2 billion in revenue and are poised to ceaselessly threaten the old and the established. As the world shrinks into Friedman's flat world, who will dominate or merely survive in their industry will be determined by who demonstrates the most efficient use of capital and resources to delight customers, no matter where they are in the world.

For companies to win deals today, simply delivering a product or service at a lower price point than the competitor's is not enough. Service providers need to come up with their own methodologies on how they will create differentiators.

## How Will This Book Help You Win Big Deals?

This book will help you achieve two things:

1. *Understand the entire Big Deal life cycle* We will show you all the stages involved, from an insiders' view—both buyer and seller—because we have experienced both sides of the deal equation. We do not know of another book, at the time of publishing, that walks you through the entire gamut.

2. *Apply deal-proven best practices for each Big Deal stage* We will share with you our knowledge of the actual, applicable best practices (not academic or research-based but grounded in experience) needed in each stage of the deal life cycle. We will also give you the foundation needed to apply some of these lessons in your own environment.

That said, it would be ridiculous to claim that reading a book on winning deals can guarantee you will win them. But we can say with certainty that by following the principles explored in this book your probability of increasing your overall win rate should improve.

Winning a big global sourcing services deal is an all-round team effort involving the deals team, the vertical and horizontal business units, the account team, and the delivery organization. Getting a complete grasp of how the entire ecosystem works will definitely improve your chances of winning Big Deals.

But before you embark on the journey of winning deals, you should invest in doing a thorough bid analysis to properly assess the winning probability for a deal. Historically, we have seen many providers ignore the bid-no-bid analysis and jump straight into bidding. A thorough understanding of the processes involved will help you craft the right strategy to win the Big Deals—or at least give you sufficient reason to walk away from pursuing one.

Three groups of stakeholders are involved in pursuit and closure of any Big Deal, and all three are critical to its success. A decision to bid or not bid on a Big Deal should center on understanding the values that we as service providers bring to the group, individually and as a whole. The three stakeholders are:

1. The customer—the buyer or outsourcer of the services.
2. The service provider—you, the supplier of the outsourced work.
3. The influencers—client consultants and outside legal consultants, such as Jones Day, Mayer Brown, and Shaw Pittman (now part of Pillsbury Law), and third-party advisors (for example, Technology Partners, EquaTerra, and Everest). It also includes the competition in the pursuit.

A quick review of these three categories can give you a litmus test and help you decide whether to pursue or not pursue a Big Deal, or highlight your weaknesses in that particular endeavor.

*Customer factors* The big question in this category is to analyze if the customer will make an award. Will they ultimately sign on the dotted line? Will they really outsource the business? The most formidable competitor in many deals is the "no award" decision. This is always a customer option, though often not stated. We recommend that every provider go through a series of simple questions to score a probability of commitment on behalf of the customer. Scoring these questions from 1 to 5, with 5 being high commitment, is one way to understand the customer's commitment to the sell.

*Service provider (supplier) factors* Service providers should examine the evaluation factors in Figure 1.2, which, if honestly considered, will show your team's weaknesses or areas for improvement.

*Influencer factors* For the influencer category, we recommend that you keep it simple. For every influencer involved in the deal, rather than score factors numerically, a simple assessment of positive, negative, or neutral will give the pursuit team adequate information to evaluate the ability to close the deal. Figure 1.2 is a pictorial view of this litmus test.

A Review of Critical Success Factors
(1–5 Rating Scale Representing Low to High)

| | Customer Factors | | Service Provider Factors |
|---|---|---|---|
| 1 | Executive commitment | 1 | Executive sponsor |
| 2 | Clear strategy and objectives | 2 | Dedicated cross-functional team |
| 3 | Structured decision process | 3 | Onsite presence throughout process |
| 4 | Defined retained resources | 4 | Integrated roles and responsibilities |
| 5 | Accountability for results | 5 | Creative solutions |
| | | 6 | Winning attitude |
| | Total rating at max = 25 | | Total rating at max = 30 |
| | If rating <20 then do not bid | | If rating <24 then do not bid |

**Influencers**
1 Competition
2 Third party advisors (TPAs)
Is rating positive, neutral, or negative?

**Figure 1.2** A Litmus Test to Evaluate Chances of Winning a Big Deal

## Conclusion

Throughout this book, we have not shied away from borrowing best practices from non-industry people who we think can add value to the global sourcing industry. One such interesting individual we talked to was tennis star and entrepreneur, Mahesh Bhupathi, from India. Mahesh is an 11-time doubles Grand Slam winner, and the former world number one doubles player, but more importantly he may be the only active professional athlete on the planet who manages a multi-million-dollar business, hands on, while playing full-time tennis. His company, Globosport, is involved in brand consultancy, film production, and managing everything from movie stars and events to top athletes. When asked how he manages to get a Who's Who list of clients onto his roster and build his business so rapidly while handling an exceptionally busy travel schedule, he answered: "By building relationships at the executive level."

As you go through this book, you will find the overarching theme of building relationships. If you take away just one item from this book, we hope you will remember "Relationships matter!" As Mahesh has shown us, a lack of time need not be an excuse for not building relationships. We do have a word of caution about relationships, though. Simply building relationships without delivering appropriately is of no use. It is up to you, as a deal maker, to ensure that your delivery teams actually do the promised work. As Mahesh mentions, building relationships but not being dependable and reliable in delivery will actually backfire more than having no relationship at all.

In the following chapters, we lay out a very simple methodology for increasing the probability of closing any Big Deal. How you make use of the knowledge we present will significantly affect the win rate of your new business.

## Notes

1. See http://www.csc.com/newsandevents/news/737.shtml.
2. See www.csc.com/newsandevents/news/1359.shtml.
3. See www.csc.com/newsandevents/news/2045.shtml.
4. See www.csc.com/investor_relations/press_releases/1167.
5. See www.csc.com/newsandevents/news/3077.shtml.
6. See http://www.dnaindia.com/report.asp?NewsID=1013197&CatID=4.
7. See http://qantas-news.newslib.com/story/7978-1513/.

8. See http://www.satyam.com/media/pr3oct07.asp.
9. For further information see http://www.datamonitor.com/ (January to October 2008).
10. On the Pearl Group deal: This £486 million deal (nearly US$1 billion), executable over twelve years, will consolidate thirteen systems (twelve homegrown and one from CSC) to Integrated Insurance Management Systems (IIMS). Pearl's 950 employees will move to Diligenta, the joint-venture company set up to execute the deal in which TCS holds 75 percent and Pearl holds the balance. Plans for this deal was announced in October 2005, and the transaction closed in April 2006.
11. See http://en.wikipedia.org/wiki/Ross_Perot, May 27, 2009.