

Client Situation



A niche provider of outsourced information technology (IT) services faced challenges to both profitability and growth in its customer base. The vast majority of this IT services provider's customers were clients in the manufacturing industry, which was in the midst of an extended economic downturn. Additionally the organization's entrepreneurial spirit led to the creation and delivery of many marginally-profitable "one-off" service offerings that placed it in competition with multiple competitors across a variety of service tiers. The IT services provider had begun to feel the competitive effects of its widely-diversified position.

Alliance was hired to work with the management group to assess the market for outsourced IT services and create a strategy that would maximize the value of the business.

Alliance Approach

The project team performed a significant amount of primary customer research to understand the value drivers of their decision to outsource certain elements of their IT infrastructure. The team also analyzed the historical financial performance of the current set of outsourcing contracts to identify relevant trends and drivers. Additionally the project team launched an assessment of the competitive landscape for the IT outsourcing market.

Based on the analysis and Alliance's experience in the IT industry, the team created a differentiated positioning for the IT services product:

- **Focus on Low-Complexity IT Services**

The market, customer, and competitive assessments uncovered a three-tiered segmentation to the outsourced IT services market. Services could be segmented into low-, medium-, and high-complexity tiers, based on the value-added labor structure required to implement each tier. The team found that the company had the most depth of expertise in delivering "low-complexity" IT services. This resulted in significantly higher profitability and customer satisfaction for existing contracts in the low-complexity tier. Based on the company's relative cost advantage and expertise relative to competitors, the team recommended that the company focus the scope of its sales and service delivery efforts on the low-complexity services.



- **“Productize” the Service Offering**

The project also uncovered that the company was undisciplined not only in the range of IT services it provided, but also in the service delivery methodologies it used to deliver its core services. This resulted in a very wide range of profitability for similar service contracts. Therefore the team recommended an increase in product management discipline to create standard service offerings that can be efficiently sold by a new dedicated sales force and profitably implemented by the service delivery organization.

- **Proactively Target High-Potential Customers**

The project team also found that existing sales and marketing efforts lacked coordination and focus, resulting in opportunistic customer acquisition and uneven profitability. As a result the team designed and implemented a process to analytically identify customer targets that were likely to “un-bundle” their low-complexity IT services and outsource these to a focused service provider. This approach would also drive the IT services provider to seek new customers in industries outside of its existing base of manufacturers. The team therefore identified critical success factors that would be required to sell services to these new industries and integrated these insights into the product line’s value proposition. As a result, sales effectiveness increased significantly.

Results and Impact

As a result of the team’s recommendations, the business began gaining share in a very low-growth market. More importantly profitability for the product line increased substantially, providing a large source of cash to fund new product development. By narrowing the scope of its activities, the IT services provider was able to achieve profitable growth.