NACCB Workshop:
Business Specialization and Diversification

Moderator:
Burton Grad

Recorded: March 30, 2007
Mountain View, California

CHM Reference number: X3997.2007

Table of Contents

NACCB Workshop: Business Specialization and Diversification

Software Industry SIG Oral History Project

Abstract: Founders and executives of professional services companies discussed how their businesses diversified beyond providing computer consultants to clients, and what business models were used in developing their businesses. They also discussed the different sizes achieved by the companies in the industry, how salespersons and staff were recruited, the advantages of contracting versus permanent placement of staff, how business opportunities were selected, pricing practices, and how the consolidation which resulted in national firms impacted their business.

Participants:

Name	Affiliation
Edward LaHay	Moderator
Randal Evans	The ProVisio Group
Grace Gentry	Gentry Associates
Richard Gentry	Gentry Associates
Steve Kenda	Kenda Systems
James Ross	JM Ross & Associates
Harvey Shulman	NACCB
Jeffrey Yost, historian	Charles Babbage Institute

Ed LaHay: This workshop is going to be about what happened in your companies in addition to supplying people. How did your business change? What specializations did you do? How did the business expand? What did you do? Why did you do it? What didn't work? We will cover up to about 1995.

Grace Gentry: Well, I'm sure that every one of us is here because we did diversify in some way; and we probably each did it a different way. Do you want to go around the table and have each of us talk?

LaHay: Yes. Start with a two or three-minute summary and then we can bounce off of that.

<u>Overview of Diversification</u>

G. Gentry: Well, we were founded in 1974; and initially we were solely computer contracting. Relatively early in the process, we did diversify. We ultimately ended up with three divisions. One division we called Gentry Products; and these were software products that we developed. They operated on the Hewlett-Packard 3000; and we sold copies to other companies, who then sold them to clients. We also sold them directly to clients.

The second division was called Third Party Products. We were a Hewlett-Packard OEM so we sold the Hewlett-Packard hardware and then, typically, maybe added some other packages, added some of our own packages, and then provided our contractors to do a "turnkey installation." They would customize the software, install it, train the customer's people, get them up and running, etcetera.

We continued to have the contracting operation and the other two, to be a "total solutions" company. At a certain point in time, when we decided that we were going to sell the company to retire, we cycled down the other two divisions but stayed with the contracting because it was the one that was reliably profitable. The other two divisions fluctuated wildly. Some years we made a lot of money and other years we lost a lot of money. So we ended up being contracting only for the last year.

James Ross: My name is Jim Ross. We were placing independent contractors when we got into the NACCB; we were out of the St. Louis area. We were the only one with a wide circle in that area. There was nobody else around at the time we came in. And Jane [Ross] became Secretary of NACCB a year after Grace left; I think a couple or three years later. Jane is my wife.

And I've been in the computer business since about 1965. We probably didn't actually open the company until about 1987 or 1988 but I had been a programmer, programmer analyst, database administrator, those types of things, and I'd been a contractor most of the time. I thought it was a good way to go so we opened up the business with the help of some of the people in the NACCB at the time, Dave Cassell for one. We went ahead and opened it up in the St. Louis area, and we didn't specialize in anything at the time. If somebody got an opening of some kind, we would attempt to fill it simply because we were small.

I did an awful lot of work with the systems administrators. That was an area I seemed to get a lot of the requirements for independents, where some of the bigger companies didn't want to work in that particular area. So I had a lot of people working, a lot of UNIX people working; and, very truthfully, the margins were just as good there as they were with the programmers or systems analysts I found. Anyway, that was our feeling; and we didn't make any change until after the year 2000.

LaHay: So you stayed just doing the contracting work?

Ross: We stayed with the contracting and placements. I talked to a guy in Atlanta who wasn't in the NACCB, and he said, "You know, I try to keep between eight to twelve people working all year and each time I probably get three to four placements." I was sitting there thinking to myself, "Well, look at this. You know, six dollar an hour margins," which was what I was going after. I wasn't going after the bigger margins. I was thinking, "Well, you know, six times ten is sixty and two thousand times sixty is a hundred and twenty thousand dollars. And if he was getting fifteen percent (as a commission) of maybe thirty thousand or forty thousand (of the salaries for the placements), this guy's knocking down a hundred and fifty, a hundred and sixty thousand dollars a year. As a contractor, I'd never seen that kind of money.

I think we had 45 people working at one time and, very truthfully, that's larger than I wanted to be. Everybody else here went that way. I can remember sitting on a boat one time with a guy named John Beviacqua, who was Dave Cassell's partner; and John said, "You know, we've got 80, 90, 100 people working." He said, "But I kind of liked the good old days." And I said, "Well, what were the good old days?" And he said, "That was probably when we had 25 or 30. You know, sometimes you get to a size, and it's just not fun anymore."

And I mean, truthfully, we got to 44, 45; and it just wasn't fun anymore. We still have our company. We treat it like what I call a long-term annuity. We had offers to sell it. My problem with selling it is that if we would have sold it in 2000, even if you got a good price on it, what's the value of that money in 2010, particularly if you look at it from the standpoint of if either Jane or I get ill or if I have a heart attack? How much of that money are you going to have left? It may seem good in the year 2000; but it may not be good in 2010.

So we promised our people their jobs for as long as they live. When they quit, they quit. Our main person has rheumatoid arthritis so she works out of her home. Everything is set up in her home so she could function in her home even if she can't use her fingers or whatever. Everything is set up with voice, everything, so she can work for as long as she wants to; and she knocks down about 120, 150 thousand dollars per year. She sends money to Arizona, which is good for me. I'm off playing golf; and she sends the money. That's what we've done. So we will probably keep ours until Robbie decides she doesn't want to do it anymore; and it just kind of dies out.

LaHay: Randal?

Randal Evans: I started my business in 1980; and I started out as a mainframe IMS programmer, DBA. I definitely did more project management after that but worked my business, starting full-time in 1985. We had about 130 people when I sold it in 1991.

The way that we diversified, we ended up taking on more projects that were going into the private arena, doing software development. We really stayed out of the hardware side of things; I didn't really enjoy that as much. We did end up having to buy hardware to set up a development lab within our offices. But we did everything on a fixed price basis. We continue to do a lot of fixed price work; and we find that we're not only successful at it, we enjoy it. Our clients seem to like it because not everybody likes doing things time and materials because it is risky. So that's how we diversified.

G. Gentry: Do you do it all on shore? Dan Williams does a lot of fixed price products, but he has a lot of off-shore sub-contractors he works with.

Evans: Yes. I just have a personal feeling about that. I like to keep everything here, and I think you can control the quality better as well. I think it's better for the economy here.

LaHay: Steve?

Steve Kenda: I started in late 1984. I was an 8086, 80286, C programmer; and there were a couple of people who needed help. I was fortunate in hiring a good salesperson and good recruiter right out of the box. The way we looked into differentiating or growing the business was to be geographically diversified. We started out with multiple offices.

I would take a contract in a remote city; and I remember in one of the early contracts, a client mentioned they wanted the air ground communications for the airline industry down in the DC area. Back in those days, everything was still so new. They had a project where they had outsourced the hardware development and had the contract before building the software. They were trying to make this integrated box work; I broke in as the troubleshooter because the two groups were pointing fingers at each other. So I told the project manager, "Okay, what I need here is an in-circuit emulator for the chip [Motorola's 68000]." But I'd never worked on an in-circuit emulator. So the guy's looking over my shoulders; and I'm trying to delicately flip through the manual. So, a couple of hours later, I started single-stepping over to hardware. I told the hardware guys that they had to initialize this register and then went back to the software guys and told them to execute this instruction and walked them through the assembly (code). So now I had my credibility with the hardware and software groups; and, a couple of days later, the box actually turned on. The project manager's eyes lit up; I was the hero of the day. It was great, and I got a little more experience for my resume.

As for diversifying between 1984 and 1994-1995, we were different from a lot of companies. We had four offices on the East Coast and we had four offices in Europe. And that was probably as much, or more, about lifestyle than anything else. We were opening offices in the US; and I figured, "Well, we know how to do that." I wanted to parachute into a foreign country and learn more. It cost me a little bit of growth. At our peak, we had 850 consultants. We were working out of 18 offices, 13 coast-to-coast and 5 in Europe; and that was just prior to the great depression of 2001.

LaHay: Did any of you - other than Grace - get into products?

Ross: Well, we did a little bit. We had a contractor who was working with us and had developed something. I think maybe we sold one. But, from our standpoint, the hardest thing that we had to do was finding good salespeople. Once you found one, my feeling was you train them in the areas that you want to work in. Once they get that, I would rather have them stay in that particular area than go outside because now you have some other terms and things you have to learn; and I don't feel that most of the salespeople are good at more than one thing. If they are good at placing contractors, it does not necessarily mean they can't sell a product; but I think that it is two different types of things.

G. Gentry: Yes. We had three divisions; and we had different sales people in all three.

Evans: Well, as much as I wanted to do it, I didn't feel like putting up with that kind of roller coaster. We actually started developing a product that was more oriented toward the consumer, the individual consumer, as opposed to the business market. One particular programmer, who was working for me and who was really into investing, said that he was trying to develop his own candlestick system. I could never really rein him in to stop tweaking the system, so I finally just cancelled the whole thing. We thought about doing it; but we never ended up making it there.

G. Gentry: Well, they were asking about specialization, too, like having a division that was just working on microprocessors.

Kenda: Most of our business was here (in the US), we were not in the MIS and data processing space. We were in engineering, embedded systems, operating systems, linkers, loaders, compilers. Engineering products of a manufacturing company, like Gould-Modicon would be developing equipment controllers and the software that would drive the controllers is where we focused. This was during the minicomputer boom; and Route 128 and 495 in Massachusetts was filled with companies like Apollo, Honeywell, HP, Wang, Data General, DEC and they were all competing for people, for talent.

There were a few mavericks. There were the spin-offs from mainframe companies. Ed De Castro developed the PDP for Digital and wound up starting Data General. They were all starved for talent. The local schools were graduating a lot of engineers, but still everybody needed talent. So it was the late 1980s when we got into the engineering space in New England.

Evans: Having now started a second specialty company, I've become a little more convinced that it's easier to diversify when you can really separate the things that you're doing within a company. I basically decided to start a second company and totally separate the two. We still talk about both companies as sister companies and we do have some crossover from time to time; but we pretty much just talk about the specialty in our second company so there's no confusion with the customers with what we're doing.

LaHay: Yes. I think it was an incredibly difficult job to manage the different things. I think you have to keep them separate because the management process is entirely different.

Ross: I think one of the things you find, too, is for us to be able to compete, there has to be something out there that puts us on equal footing with the big companies. We can't go into Anheuser Busch and say, "We can supply all of the people that you need," because we don't have that many people. So I always tried to go to what I felt would put me on equal footing with the big boys, and maybe it's a niche. 50 people at 5 dollars an hour is basically the same thing as 25 people at 10 dollars an hour. So if you can get an area where you can get the $10, then I could put 25 out there. And in that company I can still be on an equal footing if I'm in a niche area and I have people that know that area and I'm conversant with the client in that particular area. A lot of the salespeople know the buzz words, but they could not recommend to a client, "You pick this or you pick that."

Hiring Salespeople: Finding Good Ones

LaHay: Have any of the rest of you had challenges with getting good salespeople?

G. Gentry: Yes. There is a different type of sale involved in hardware sales, software sales and services sales. Our observation was that hardware salesmen could rarely make the shift to the services. Software salespeople could sometimes make the shift. The services business was much more a long-term relationship. You established a relationship with the customer and you continued to provide them with contractors over an extended period of time as opposed to hardware where you go in and you tell the facts, you price the deal and you leave and then call back a couple of years later and say, “Do you need another one?” Different personality, different style, etcetera.

For services, I knew owners of other companies who would come out with all sorts of ideas of where to find people who would be successful in this type of sale--computer contracting services. It was a mystery as to what it took.

There was a fellow who used to give tests, Lanny Goodman. He developed a set of personality profiles and specialized in working in our industry and providing tests. First, he would talk with the owner of the company and find out what the owner’s management style was. Then, as he would administer the test to candidates we were considering hiring, he would match their personality profile against what he had concluded was the profile that would be successful, not just in services sales, but in operating within that particular corporate structure and style and culture. It wasn’t a hundred percent predictable; but it was a tool.

Kenda: Yes, the salesperson needed to be capable of closing versus someone who’s just amiable and friendly. There are lots of nice salespeople who are going to get to know the prospects; but they wouldn’t be able to close the deal.

Harvey Shulman: You know, most of the companies here selling contract services were not taking responsibility for the deliverable. The workers went to the customer, and they were really supervised by the customer. Now the contracts you signed with the customer said you have responsibility for the deliverable and you were warranting a hundred different things; but the reality was that the customer was controlling the day to day work and the end result. So I think where you talk about the stereotypical contract services company, that mode of operation - of supplying the talent and not supervising the project - is something you’ve got to keep in mind.

Secondly, one of the big shifts that did occur was in the mid-1990s. It was what was called solutions work; that was sort of the buzz word back then. I’m not exactly sure what the difference was between solutions and project work except that companies that were solutions companies were being sold for a lot of money, even if they weren’t profitable.

Evans: It’s a better buzz word.

Shulman: That's right. So many companies actually did try to set up solutions operations. For the most part, even among some of the larger companies, they were unsuccessful. They lost money or a whole bunch of things.

Yost: Companies started using that term in the early 1990s.

Shulman: It coincided with the Internet taking off in about the mid 1990s. It may be slightly beyond the timeframe you're looking at; but it's actually much more significant in terms of an attempt to diversify the business than all these other things. And then the last point is that Steve's company was one of the larger ones in NACCB as a private company. I mean 800 contractors was enormous in the early to mid 1990s.

The average NACCB member was probably in the five to ten million dollar a year revenue range, and you folks were a much smaller size so you have actually gained a very good cross-section of companies here. There were people in the industry who saw this business more as a lifestyle business. It was fun; it generated good income; they wanted to continue doing it. There were a number of other people in the industry that were always focused on growth, and it might be multiple offices or getting specialized.

When you raised the question of did people diversify, you know we're not talking here about IBM and Microsoft, we're talking about - for the most part - private companies. What people did was more a reflection of what their own interests and desires were than a business model of: "Okay, we've got to keep growing, we've got to make more revenue."

There were a lot of different things going on; and I think it would be hard to draw a conclusion that there was one trend or another. There were different things happening that people tried to jump on

Contracting vs. Permanent Placement of Personnel

G. Gentry: There is one thing that I think many contracting agencies did, which was to add permanent placements to the services provided. Did everybody here do that?

Ross: Yes. That was one of the things we did right from the get go because why not.

G. Gentry: I was opposed to doing permanent placements for years because I felt you were looking at a different kind of candidate, that it was just a totally different type of business, etcetera. We only started doing permanent placement at the demand of our clients who said that they loved doing contracting with us, but they wanted a sole source for both permanent and contract. They wanted us to add it or they'd find someone who would do both.

Kenda: There was no equity value on permanent placement businesses. You had to think how much you wanted to invest in the permanent business because any buyer coming in would look at it and say, "Well, that's not worth what the contract business is because there's no annuity strength as with contracts."

Evans: And the challenge that I found about moving away from the staffing side to anything else is not just the education, but do the people that you are going to be using in this new venture have the mentality to do it. For example, when you're selling software or hardware, the sales cycle is much longer. If you have got a group of salespeople that you want to involve in software or hardware sales who are already involved in staffing, there is much more instant gratification because the sales cycle in the staffing business is so short.

G. Gentry: Yes. We were afraid that the permanent placement would distract from the contracting because it is a big hit now; but it's not, in the long run, good for the company because we did want that base revenue strength to make the payroll.

Kenda: We figured our salespeople would get distracted.

Ross: I felt exactly the opposite. My opinion was this is a quick hit, and we still look at it that way today. I could have a quick 15 thousand dollars and that person is gone and I've got a check.

Kenda: In 2000 it cost me an office in Atlanta. Unfortunately, the office had moved its business to about 80 percent permanent placement and 20 percent contracting services. When the bust hit post April 2000 that office was out of business. They had no contracts to support the overhead. They had to shut down. It cost 10 people their jobs.

G. Gentry: The contract stream continued through most of the recessions and depressions. In 1982, we didn't place a single new contractor. We also didn't lose a single contractor because there were hiring freezes everywhere. The clients were not going to let those contractors go because they could not hire new permanent people. The contractors were not going to leave that contract because they could not find another contract. So we went through that entire year on that contract stream; and it stayed the same. The permanent agencies were going out of business by the score; and we did not.

Evans: I always looked at the contract revenue as kind of the foundation when I wanted to diversify, whether it was out of boredom or just wanting to do something. I knew that I had that underbelly. If this new venture couldn't pan out, I still had something to fall back on. I didn't have to worry about laying people off or shutting down offices, because we had that constant revenue stream.

Ross: So, again, maybe it's the size of the company and the location because you guys are really surprising me here with what apparently went on with most of you around 2001 and 2002. I'm not going to say that back in St. Louis business was fantastic; but it certainly doesn't sound like we took the hits back there like you guys were taking on the coasts.

G. Gentry: We had a lot of "dot.com" business so when it went bust, we got hit by it in the California Bay Area.

Kenda: We had a hundred and sixty insiders and salespeople, twenty offices and eight hundred and fifty contractors. That dropped to seventy insiders and four hundred contractors in a three-year stretch. It meant closing seven of the twenty offices.

Ross: The only thing I can say to you is we were small, but when we went away from IT, we went to a niche market, which was trainers. I based that and copied that off of Chris England, who had the tech writers. And from that concept, we actually increased the number of contractors we had over that period of time. We probably went from about 15 to 18. We were hitting 25, 30, 35 contractors in that niche area.

G. Gentry: Well, specialization was one of the things that we are interested in hearing about, so maybe you should talk a little bit about that niche of tech writers.

Ross: But this didn't happen until after the timeframe.

Planning and Strategy vs. Serendipity

LaHay: I was going to ask the question a different way. How much did your business grow by planning and strategy and how much did it grow by serendipity?

Evans: I think that if everybody was honest, one of the things that I found to be true in business is that the more that you get yourself out there and the more people that you deal with, even if it is within your existing customer base, the more opportunities that you don't expect tend to pop up. So it is important to plan and strategize and make moves in different directions, but I don't think you can ever underestimate being able to find new opportunities in new areas, even that you didn't plan for, simply because of other things that you're doing in the way of business with those customers.

And that's really what happened to me in terms of getting in the permanent placement work and those kinds of things. The more I talked to customers, the more I saw there was a need there for it. They started asking me would I be willing to do that, "Look, if you don't want to do permanent in addition to contract, we're going to replace our vendors' list with companies that are willing to do both." And so the customers sometimes will drive you in a direction that you might not really want to go, but it ends up being an opportunity.

Shulman: Didn't it used to be that you could sell primarily on a skill set? I mean customers wanted people with certain skill sets. I think over time, particularly in the early to mid-1990s, that customers wanted skill sets in a particular industry so there definitely was specialization. Companies sort of fell into it so that when telecom was hot, you were providing people to MCI; and if you were doing that, then you started providing people to AT&T and Verizon.

The other thing to keep in mind is that there are the salespeople, but that's only half the equation. The other half is the recruiters. A salesperson cannot be effective unless the recruiter is effective, and vice-versa. Here are these people learning about a client, let us say it is MCI, which was a huge user of contract services, and they were making submittals to MCI; but one out of three or five people were actually being retained by MCI because the other vendors were winning some of the positions. Now you had developed this cadre of people that knew a certain skill set in the telecom industry.

So you would market yourself, in your marketing brochures or your web page, that one of your areas of specialization was doing telecom or financial services in New York. That was a big one when you did insurance companies or banks.

I was in a company and part owner of a company starting in late 1998, past your timeframe; but for several years before that, I am a lawyer and so a lot of my knowledge was dealing with companies being bought and sold. You would see what was working, what was not working, how people were positioning themselves. I do not think it was entirely serendipity; but once you got into something, then because you started getting the talent available, you started to market it into that same industry set.

G. Gentry: I always said that the problem was never lack of opportunity. We were always covered with it. The problem was just picking one and focusing. In strategy versus serendipity, I think in my personal life, and certainly in my business life, what I found is that I would say, "Okay, I am going to try that." Then, as you move towards it, some part of that path will work and some part will not. If you are smart, you know when to drop what is not working and when to bear down and veer towards what is working. Ultimately, you get some part that works really well.

And I think Harvey observed something that is very true. I know, from talking to other NACCB members, some of the companies ended up specializing if they were smaller. If they were larger, they had groups that specialized. When a recruiter had gotten strong in an area, with a lot of connections among people who were HP 3000 people or whatever, then the salesperson would walk in to a client and say, “Oh, we’re really strong in this. We can provide good candidates quickly.” That would end up as a focus for that team. That didn’t mean the company was necessarily overall specializing in it; but these little areas of specialty very naturally occur.

Ross: Probably about 1994, 1995, the big thing was that I was starting to see, at least in St. Louis, companies coming from outside of the United States and companies that were providing Indian personnel. Customers always looked at it from the standpoint of what’s the cost going to be? You know, how cheap can I get this COBOL program for? So you started seeing vendors’ lists.

From a small company’s standpoint, I didn’t like vendors’ lists because I was not large enough to be able to put a bid in on it and say, “I will only charge you 30 dollars an hour for COBOL programmers.” First of all, I could not find the quantity necessary to supply that or manage it. So I was primarily after their non-vendor lists. I didn’t want to be on the vendors’ list because it limited what I could bill and, therefore, limited what I could pay. So we went for what we called specialty vendor lists; for instance, something that maybe all you do is Oracle.

G. Gentry: This was after the time period.

Ross: Yes. Now I’m saying that I could see this coming in1992, 1993, that there was going to be some big changes out there. I think with the vendors’ lists, which was going on in 1992 and 1993, I think that was pushing companies towards areas that they hadn’t gotten into before and really resolving them in specializing.

LaHay: The thing that you said, James, builds on something that Harvey said. The experience I found is, in addition to developing the skills in the particular industry, you developed a reputation in the industry. Once you had established a reputation in the industry, then it was a whole lot easier to get into other companies.

G. Gentry: You could give references to other clients where you had done similar work. This was particularly applicable in our situation, where we were doing turnkey solutions, etcetera. Often Hewlett-Packard was introducing us to the client company. At first the H-P salesmen would say, “Well, what do you guys do?”; and we would say, “We can do anything,” because we could assemble a team of contractors and do anything. Well, salespeople don’t think that way. So after we had just done two order entry systems in a row, we said, “Okay, we do order entry.”

The next thing you know, we were being presented as the order entry expert. Okay, we're the order entry experts.

Yost: Did you often look at areas out there that looked like fairly good opportunities for growth and say, "We want to be in those areas. How do we go about it?"

G. Gentry: Yes, we did. When the minicomputers came along, my husband said, "This is the coming thing." So I said, "Okay, then we are going into minicomputers." For several years we worked on different kinds of minicomputers. The company that we liked the best and had the most success with was Hewlett-Packard and the H-P 3000. They were the ones we ended up doing the most business with for the most years.

But, at first, you couldn't find an H-P 3000 programmer. H-P had just released their first commercial machine [the H-P 3000]. So, I chased business. I would find someone who was buying an H-P 3000 and needed additional staff to come in and develop the application that was going to go on it. I would sell (the contracting services of the mainframe programmers to them, sometimes at practically no overhead or no return to us.

What I was doing was: 1. Developing a reputation and a record with a minicomputer, the H-P 3000; and 2. Training that contractor, who had probably already worked for us on the mainframe, to be an H-P 3000 programmer, so then we could start going after that type of contracting business. We did that very successfully. And that was very conscious, chasing after the up and coming minicomputer business.

Pricing Practices

LaHay: How did you get the prices up?

G. Gentry: Once they had experience in more of the H-P 3000 systems and marketplace, the demand for programmers got higher. The supply at that point was still pretty tight; and we had more than most, so then we could get the rates up.

LaHay: Did you have to go to other customers to get the rates up or could you get the rates up with existing customers?

Kenda: Well, if the existing customer didn't pay the rate, the new client would.

G. Gentry: Actually, I had a nice, collegial relationship with most of my customers; and they would understand, if the person had been there a certain period of time. I would never go back and ask for an increase in our side; but I would go back and ask for an increase for the contractor. I would say, “You know, in all fairness, if you can not give this guy a raise, he is going to be tempted to go work elsewhere. He has got experience, you love his work, you want to keep him, etc. I never had a problem with that. Customers were very understanding.

Ross: Particularly when I would go to them and say, “You are welcome to go ask the contractor if we gave him the 2 dollars an hour. You are welcome to go ask him, to make sure he got it.”

G. Gentry: One of the things our company always did, that didn’t make us terribly popular with our competitors, was that we always told the contractor what we were billing and we told the client what we were paying the contractor. We would go step through, with the client and the contractor, how much we were paying for unemployment when they were W-2, what our overhead was, what our gross margin was and what our projected net profit was. So when we would come to the client and say, “We want to pay this contractor more”, they already knew the picture. They knew how it worked.

Ross: Right. We did exactly the same thing.

Shulman: Which in the long term turned out to commoditize the industry and have customers actually limiting what your markup could be. Even Digital Equipment Corporation in the early 1990s and mid-1990s came out with, “This is not only what we will pay you for a programmer with this skill set, but you can only mark up a person’s wage by X percent.”

Kenda: I can show you a history of company after company when they turned over that decision making to a purchasing group instead of the hiring managers where I can get 35 percent for this guy somewhere else because he’s an A+ programmer. You want the 20 percent person? (He’s not an A+ programmer.)

It started with Digital Equipment and moved to Bank of Boston; it was the same group of purchasing managers. Once DEC was out of business, they sold their services to Bank of Boston. Once Bank of Boston was out of business, they sold their services to Fleet Bank. Same thing, time after time, I watched the entire cycle play out. Company after company went out of business because they turned over critical hiring decision-making to the purchasing department.

Shulman: Well, there’s no doubt about it, but I think it was a bad thing, not a good thing. What I think is one of the unusual things about this industry is when you go to the jewelry store or a supermarket, you don’t say to the person who runs the business, “How much did you pay for this? What's your overhead? How much profit are you making?" There is a price that you're charged; and if you don't like it, you go someplace else.

One of the things that was happening in this industry starting in the early 1990s, you can call it specialization because it certainly drove people in different directions away from where this was occurring, is that customers started getting into the business of enquiring about how much you were paying people, what is your markup, and those things. In places like New York, people said, "Well, I'm not going to do business with Merrill Lynch anymore because I can make more money someplace else."

So in terms of leading in different directions, the thing about this industry is that for a long time it was a very nimble industry. Whether you were 14 people or 200 people, you were not locked into having to do things a certain way. That was one of the things that really distinguished these companies from a lot of the ADAPSO companies. They were locked into a certain way of doing things. They were locked into a unitary HR system, the type of people they hired, everybody was salaried.

Companies within this group had all kinds of people. You had independent contractors, you had some salaried people, you had hourly people; and some people got benefits, some people did not. What that meant is when all these things started changing, whether it was the technologies changing or customers became obnoxious, you could respond really quickly to that, which made this an incredibly successful and viable business.

What changed, and this is sort of the elephant in the room, is that in the early 1990s there were public companies– before that there basically were very few public companies in this industry. You had Computer Horizons and very few others.

Kenda: They weren't members of NACCB.

Industry Changes and Consolidation

Shulman: Yes. So the largest part of this business was all privately owned, small to mid-sized companies who were flexible to do all sorts of things. Then folks out of the industry had the idea, "We can combine a bunch of companies and make a huge company and take them public and make a lot of money." So around 1993, Mike Willis was one of the first with COREStaff. I think Willis actually was the first. These are people who had never done IT contract services.

Once big, huge, public players got involved in the game, more than the technology changes, more than the customers setting certain rules, that really required companies in contract services industry to respond very differently. Now Goldman Sachs could say, “We’re going to have a vendor list and we’re going to deal with10 companies and - except for the women and minority-owned business, we might have 2 (of those) on the list. We are going to be able to satisfy all of our needs through eight huge public companies.”

So what do you do if you are Grace Gentry or Steve Kenda? All of a sudden your big clients, or some of your big clients, now are doing business, not with competitors that you are used to in the Bay Area, which is another thing. These customers had operations around the country. They wanted to do business with contract services firms that could provide people and work in California, in Ohio, in New York.

I think the amassing or the conglomeration of these firms and the creation of huge companies probably had more of an impact on how people had to operate their businesses than almost any of these other things. You could be nimble and respond to technology changes, to a particular customer doing this or that; but now all of a sudden when you are up against large firms, it makes a big difference.

Kenda: And the money that flowed in just distorted so many things.

Shulman: And some people sold their companies. NACCB was losing a percentage of their membership every year because, literally, eight companies that used to be individual members were all bought up by Accu-Staff, which is now Modis, or COREStaff bought up four companies. It was really incredible.

Evans: As I was working out my non-compete after I sold my first business, Mike Ball and his partner called me to help them start a new division within their company because they wanted to sell their business in a couple of years. One of the reasons they told me that they wanted to sell was that they saw this issue you were just discussing, where the customers wanted you to be a regional or a national firm. That’s the only kind of companies they wanted to work with. And the industry companies had no desire to do that. They wanted to improve the value of the company before they sold it; that’s why they were starting this division and asked me to come in and run it for them. So there is a lot of truth in what you are saying.

G. Gentry: Okay. You were talking about a form of specialization. One of the things that we did was, although we had some large customers, IBM and Hewlett-Packard, etcetera, when they started doing the short list bidding, we did that for as long as it was profitable and then, when it was not, we just told them, “Sorry, we can’t. We have got good people. We can place them elsewhere.”

We specialized in working for small and medium-sized companies. In fact, for the majority of our clients, we were their sole vendor; and we were dealing directly with the president or the vice-president of IT or whatever. Competitors would call; and they would say, “Sorry, we have been dealing with Gentry for 10 years; and we just don’t talk to anybody else. It’s a partnership deal.” Because we knew their company, their culture, their people, etc. So that was a form of specialization for us and a way of dealing with that problem.

One of the big mistakes the company that acquired us made was to try to redirect our staff to go after these short lists in big companies because of their ignorance of the industry and how it really worked. I never understood why they would buy a company and then change everything we did.

Ross: My personal feeling is that the biggest thing that happened was when the hiring was taken away from the project leads and the ones that actually knew what the skill set was and it went to procurement or personnel. Those were the individuals that looked at nothing other than the dollar amounts. There were plenty of times that we talked to personnel that sent resumes - or actually sent people – where the hiring manager did not even get to interview the people or the project lead didn’t even get to interview the people. Personnel was making the decisions as to who they were going to get. When they did that, that opened up the door for the people coming from overseas. I would just actually refuse to do it. Second thing is you have got somebody (a big company that is the general contractor on another big company’s “short list”) calling up, and they want a COBOL programmer. Well, the going rate for a COBOL programmer is 30 dollars. They still want their margin regardless of who supplies it so now all of a sudden I’m looking for a COBOL programmer for 18 bucks an hour. If I can even find one that says, “Yes, I will do it for 18 dollars,” they must be pretty bad. I don’t want to turn around and send that person out there anyway because the contract with a primary consulting company is that if the thing doesn’t work out, they don’t pay.

Another thing is, by the time you turn around and you bill them - and they are asking for a billing once a month - that means I am 60 days out of a lousy contract, of a lousy person and who knows what is going to happen? If you tried to talk to personnel, personnel did not care. All they wanted was the cheapest they could get. Most personnel people I talked to really thought that there was only five vendors on the vendors’ list. They did not understand that there was a whole bunch of secondary and tertiary vendors feeding those people there. That was what really changed for the mid-sized and smaller consulting companies, like us, out there.

Fixed Price Projects

LaHay: I want to get back a little bit to the fixed price business. At least based on my experience, that's an unusual niche. How did you get there; and how did you sustain that business?

Evans: Well, one of the reasons that I felt comfortable doing it is that, having been a project manager, I just felt that I could help manage the project so that they did not get in trouble and did not end up losing money.

G. Gentry: Did you use permanent staff to do it or did you bring in a team of contractors?

Evans: It depended on the project. If it was in an area where I wanted to retain that knowledge base, for reasons of trying to duplicate this system elsewhere, then I would use permanent staff. If it was something that was just a project that I did not think there was any future potential with other companies, then I would tend to go with contract.

G. Gentry: When you used permanent staff, were you paying them by the hour or were they salary?

Evans: It was a mixture.

G. Gentry: I am only asking because one of the problems we had with fixed price projects was that we realized we were paying them by the hour, so what is their motivation to finish it fast? So we developed all sorts of little clever things like "if you finished it in so many hours, then you got this little bonus" and pools and everything. But there still was always this conflict in that we're paying you by the hour and would you work fewer hours, please?

Evans: Well, a lot of times what I tried to do - I can't tell you I was always successful in doing it - but if I was concerned about that individual, I might look to find a different resource. I would try and box them in, just as much as I was boxed in with the client on the pricing, to say, "If I'm going to pay you by the hour, then this project has to be done on this date and not exceed this many hours. If it does, then you are going to finish the project on your own time."

LaHay: So you tried to flow the contract commitments down to the contractors.

Evans: Well, not with everybody that was on the project, but with resources that I might have a little concern with "milking the project." The thing that I still believe, that I even use for fixed price work today, is that customers are willing to pay a premium for fixed price work because of the lower risk involved. At the same time, if you come in and do a good job and if it is managed right, they can end up with a better product and possibly even get the product sooner than expected.

G. Gentry: Our problem was always the change orders. We were so proud, we wanted to do such a perfect job, that we had difficulty resisting change orders. You get killed by those change orders.

Evans: You do. That is a key element in all of my fixed price contracts. One of the things that I try to do before everyone starts this avalanche of change orders is to convince them that the first thing you want to do is get the system delivered and get it in, get people working on it.

G. Gentry: So turn those change orders into a "To do" list.

Evans: Right, let's talk about an enhancement project after this is delivered. A lot of times I could then use some of the contract staff and move them into the support role with the customer.

Ross: That is what I was going to ask because we never did those fixed price projects. Did you sometimes do what he said, use contract hourly people on the change order? How did you evaluate the change order?

G. Gentry: We just had a very clear description of the specifications. That is critical. We tried everything, and sometimes it worked and sometimes it did not. When it did not was most often because we yielded in the change order. They would say something; and we would think, "Oh, that's pretty cool."

Evans: And the other thing that is critical is to write a very good statement of work. I am a big believer in managing expectations. If you write a very good statement of work and you manage those expectations, then you can control a lot of that. Where you are dealing with people in the customer side who do not really have a good idea of how to run projects or the impact of some of their requests, it is just an education.

LaHay: One of the things that you mentioned was expectations. I've seen many people put together a project expecting there is going to be a certain amount of change. They give themselves some capacity for change. Then, partway through the project, they realize they have got to introduce this change order process, which only sets the client's expectations that they can make changes. Particularly in fixed price projects, you have got to have the change order process at the very beginning.

Evans: But you set the expectation that, depending upon the scope of the change, that could also affect the price. Sometimes you get change requests that may only cost you an extra day or two of effort, and a lot of times I will just eat that. But where they want to bring in a big change, I love it because I get to re-price the project. As long as you are very clear about that in your contract and you are very clear in terms of how you communicate and manage those expectations, I think it can be very profitable.

Ross: Not only would it be in your contract, but would you sit down and discuss with them how you viewed the change order process and what your expectations would be? How would you go about evaluating it and those types of things?

Evans: Yes, because in the process of putting together the statement of work, you have a very clear definition of what they should expect as a deliverable.

Ross: Did you have a particular person who would go out and evaluate these fixed price bids and then actually write the contract and stuff up? Or did you do it or did you feel that most of your staff could do it?

G. Gentry: There were three of us, two project manager types, and me. Typically on a fixed price project, I would work with one of them; and we would put it together. I think one of the reasons that we would win some and we would lose some - and there were a variety of reasons for the ones that we lost - was because we didn't have a pre-set procedure that we went through. We all had been project managers, we all had the skills, etcetera; but when I talk with companies that do this on an ongoing basis, it sounds as if you are personally doing the project management.

Evans: I have never let a fixed price project go out without being personally involved in it.

G. Gentry: I was personally involved in it going out, but not involved in the managing of it after it went out. That was sometimes where it would get slippery, if the project manager was not as diligent about change orders as he should be.

Ross: I think this is very fascinating really because I have never done fixed price projects. We have gotten some opportunities; and I didn't feel I had the talent, and I didn't know anybody that had the talent, to sit and go through that process.

Shulman: When you do or did these projects, was it on a tried and true technology or cutting edge things?

Evans: It was tried and true.

Shulman: Yes, because there is a big difference. When I was in-house in the company, we were growing and got up to a thousand consultants and, as a result, hired people on staff in the company to install PeopleSoft so we could run our own front office, back office, etcetera. When that was done - which always takes longer than it is supposed to, then you had these in-house people who had the expertise, were comfortable enough and really knew what was going on, to bid on some outside project work involving PeopleSoft installations. Our experience there was very different from the experience in taking on some Internet projects.

When all the new Internet stuff was coming out, we had a guy who, prior to coming with us, was the guy who put together the website for Post Newsweek and The Washington Post and Newsweek Magazine. But when you're going out there and his experience was doing that in-house, you didn't really need to think about budget at the Post or Newsweek – it was a very different business environment to putting it together. Well, the technology, the HTMLs and all of this stuff was changing, so bidding on Internet projects and having those really come in within the expectations of the budget was hard. The technology was quickly changing. We found that there were projects that really worked, because the technology was tried and true, and there were projects that we wished we had never touched.

Ross: Did you like the fixed price work or would you do these only as a last resort after you tried to convince the client to do it on a contract basis? Because we had opportunities and I did not like them. That is why we stayed away; and I'm just curious.

G. Gentry: Well, it was for different reasons. Sometimes an RFP would come out. I remember when I decided that I wanted to get into minicomputer work, I found an RFP for the National Sheriffs' Association and ended up responding to it. It was the first RFP I had ever responded to and I answered it the way you do a final exam. They were impressed because I had no "boiler-plate." They said they had never seen anything like that.

We sold them a Tandem Computer. It ended up being a fixed price project because that's what the RFP was asking for. Again, we were trying to get our credentials in the minicomputer industry so the opportunity to do a turnkey project halfway across the nation on a computer we had never worked on, designing this system with a bunch of sheriffs, I mean, who could resist?

Evans: Yes. The other thing that I did when I was dealing with a project that I did have some discomfort about is that I would …

Ross: Discomfort? Why?

Evans: Well, from either the standpoint of our own experience with the technology or the application. Also if I had a concern that the client was not really on the ball and did not really know what they wanted but were just talking in generalities. I would do a two-phase fixed project. The first phase would be the definition of the project and laying out the requirements. Once that was in place and everybody agreed, I would then follow up with a fixed price for the actual development of the system. You can fend off risk by doing it that way.

Shulman: I think it's interesting that of folks at the table, Jim was the smallest and Steve Kenda was the biggest, and neither of you did fixed price projects.

Kenda: We would do the fixed bid on the functional spec or the design spec, but then if we're going to get into coding, we wanted to do that on time and materials. So we would talk a fixed price bid; but it was really just the initial piece.

Ross: We had a couple or three opportunities where companies would say, "We are going to do this on a fixed price bid." One of our problems was finding somebody qualified that we knew and that I felt comfortable with going out and putting that together and making a bid of some kind on it. That wasn't easy to do either because I'm looking at having to hire somebody to spend that two or three weeks to go out and see the client, put something together; and we may not get the project.

G. Gentry: Well, we had permanent staff to do that.

Competing and Working with Large Companies

Shulman: Also, with the consolidation in the industry - and before the consolidation, customers were not able to go to Modis or the huge contract firms. There was Computer Horizons or IBM, if that's what they needed; but nowadays or post 1995, it was easier to go to the larger firms who had more talent and insurance and the technical people. The CIO at a client was actually putting their reputation at stake for them to bring you in; if things went wrong on something important, they are probably going to be out of there. Whereas- well, "we hired Modis" no one would fault the decision.

G. Gentry: Yes, the joke used to be nobody ever got fired for hiring IBM because we saw companies hire IBM and pay them three times what any other company in the entire Bay Area would have done the work for. And we knew why they had hired IBM.

Shulman: To match it up with Jim's earlier point is that Deloitte or Accenture would get these huge projects from state agencies or whatever at $300 an hour. They didn't have enough people so they had to go outside. They also didn't have all the skill sets inside, so they would come to contract staffing firms and say, “Well, we will give you $140 an hour.” It was a huge amount of money, but it was still the difference between the $140 that they were paying and the $300 that they were charging.

Evans: Let me give you a classic example of that. This just happened to me recently. I bid on a fixed price project at Microsoft, and we were the lowest bidder. They actually selected a vendor who bid twice as much as we did; and for us, it was a million dollar project. Now that vendor has decided they don’t have the wherewithal to do the project. They are now coming back to us to subcontract. So we end up winning a project even though the customer is much more comfortable selecting a billion dollar company as the general contractor.

G. Gentry: So does the customer know you are the ones that are going to do the job?

Evans: Not yet.

Ross: Yes, but see, that was another problem that I had. If I’m going to supply most the companies that I talk to, it was in the contract that our contractors coming from us would not identify us as the contracting party. They must use the people on the vendors’ list, and they would have to say that that was the contracting company that had gotten them there.

Kenda: I’ve never seen any of those restrictions.

G. Gentry: Yes. That may be in your part of the country.

Evans: I’ve seen that from time to time.

G. Gentry: The trouble with that sort of thing is everybody knows. That is one of the reasons we would go ahead and tell what we were paying the contractors because everybody always found out anyway. So you could either look honest up front or you could look as if you were trying to hide something, even if you weren’t trying to hide something.

Evans: What causes all of that to eventually fall apart is supply and demand. Once the resources get so tight, even the primary vendors cannot deliver. I have always had this philosophy that you are either a customer or you are a source. If you do not want to do business with me, well, guess where I am going to be hiring most of my people from? It’s supply and demand.

I don't go and tell a customer that, but let's face it, if I have got customer A who does not put me on the vendors' list and I've got customer B who does - and they both use the same technologies… Either those people are calling me, looking for new jobs, or I am recruiting them.

G. Gentry: I was at a panel discussion one time, and this totally obnoxious owner of a company made it very clear to us that when he would do a presentation to a client, he would make clear to them that if they didn't choose him, then he would come back and hire their people. It was blatant blackmail. He was big enough up in the Seattle area that nobody could call him on it. They knew that he could do that. And he was proud of himself.

Evans: I'm not saying that use it as a threat, but to me… When I talk to my staff about recruiting people, I tell them, "Look, obviously we have a policy that we do not hire people out of our customer base." So where do we get our people? Well, we get our people from our non-customer base.

That's a conversation that I have. I think deep down any company out there that uses staffing firms understands that mentality and understands that it exists because of when they themselves eventually look for a new job. So they understand how some of those things work.

G. Gentry: But there is hiring out and there is hiring people that come to you. We never went in and pulled some out.

Evans: The one thing I will tell you about doing fixed price work is that it is a lot easier to do it when resources are tight and companies are having problems finding people than it is to try to compete when there are a lot of resources in the market who are willing to work real cheap.

Shulman: I was listening to what you said earlier about the immigration issue. So many things converged around the same time in this industry, including the consolidation of the companies and then ADAPSO pushing for more foreign workers to come in. Look at the Visa cap growing from 65 thousand to 125 thousand. When all these things start happening, it disrupts whatever the earlier equilibrium was in the industry.

G. Gentry: That's why I always loved the business. It never stayed the same. You never got bored.

Fewer Small Contracting Companies Today

Shulman: Yes. The danger of a lot of these things that have happened, whether it was 1706 or whether it was the consolidation, a lot of these things were driving small companies out of business. Then what is happening is that it is squeezing to the point that we no longer could be profitable. In some ways, this business provides a cushion in the industry. When people get laid off, it is a place where people can go and try to bridge the gap. It does a lot of good things; and it is really sort of being scrunched and squished.

G. Gentry: Don’t you think that somehow something will fill the gap? I mean that the need is there for this industry. Don’t you think it will get filled somehow?

Kenda: I don’t know. Why did we come into existence? We came in because…

G. Gentry: There was a need.

Kenda: The need was the client does not want to pay for high-priced advertising. If we could aggregate and build databases of localized candidates, we’d have something to offer. We knew the candidate pool because we advertised on a regular basis. Clients didn’t have that access. They came to us because we knew who the right people were, who was available at what price and where the people were going to be found.

Ross: I think the main reason we came into the business is because there was not a sufficient amount of technical people available anywhere to fill anywhere close to the number of requirements that were out there.

Kenda: I am not talking about supply and demand. I am just saying we were needed as an industry. Our strength was the fact that we were the data aggregators of the local candidate pool and that need has been diminished now.

Evans: Actually, it has been redefined in this way. The clients are now forcing a new model and the new model is that…

G. Gentry: Contract recruiters. Our son is a contract recruiter for Google, for YouTube. He is a contract recruiter for BitTorrent. He occasionally uses an agency for a permanent search.

Evans: But what is going to eliminate that - and this is the new model that companies are now moving to and it is all kind of a fallout of vendor management programs - is that they are choosing a select group of companies that are national in size; and they are saying, “Look, we are not driving the small business out because you guys get to be subcontractors." It also helps them make their minority requirements.

The problem that they don't see is that there is some negative about building your competition's reputation through your hard work. Everybody is doing this to consolidate invoicing because it is such a headache. Now I have to be paid by this big competitor who really could put the squeeze on me as a competitor if they wanted to; and the clients do not understand that. They say, "Oh, we can control that. If they ever try to do that to you, we will call them on the carpet for it."

Ross: But that started in 1993.

Shulman: I think it's even worse than what you are saying because in almost any business if one company competing with everybody else said, "I am going to be the gatekeeper for all of my competitors to do business with client X. All of you, my competitors, I need your proprietary information. I need to know who your people are, what you are paying them, what their addresses are."

All of your proprietary, profit-related information is being turned over to a competitor who not only is a competitor of yours at that one client but is a competitor of yours all over that whole area. I know they say, "Yes, but we have firewalls; and when you give the information in order to get your invoices in, it doesn't go to our recruiters.

Ev**ans:** Bull.

Shulman: Right. In almost any other industry if this happened, those people would be put in jail because you cannot exchange pricing information among competitors. But there is this structure that has been set up. "I am really not a competitor; I am a gatekeeper. In order to make the money flow, I need to know all this stuff. If I tried to sit down across the table from you and say, "Who are your people? How much are you paying them? What is your markup?" It would be price fixing.

LaHay: Thank you for an excellent session.