NAACB Workshop: Customer Relations

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Table of Contents

GETTING CUSTOMERS IN THE 1970s....4

PRICING SERVICES....7

PROSPECTING FOR CLIENTS IN THE 1980s....10

SELLING INTO THE INFORMATION TECHNOLOGY MARKET....13

CONTRACTING WITH CUSTOMERS....15

COMPETITION....15

MANAGING A BROKER-TYPE FIRM....18

BUSINESS CHANGES AFTER 1706....21

PROFIT MARGINS....23

NEW MARKETING MODELS AFTER 1706....27

"CO-EMPLOYMENT"....28

COMPETITION FROM OUTSOURCING....29

CHANGES IN THE MARKETPLACE....30

MANAGING PERFORMANCE ON PROJECTS....33

SALES TERRITORIES AND PAYMENT PLANS....38

ACCOUNTING “STANDARDS”....40

HIRING SALES PEOPLE....42

CHANGES IN BUSINESS PRACTICES....46

NACCB Workshop: Customer Relations

Conducted by Software Industry SIG—Oral History Project

Abstract: Representatives from a number of the broker-type professional services companies discussed how they were able to sell their services into various markets. There were significant differences in the approaches taken, but in almost all cases they used salesreps, primarily on a commission basis to establish the contacts and follow up frequently to identify opportunities. Matching the skills required to the Independent Contractors that they had recruited was an advantage to some of these companies. They discussed their pricing and IC payment models and some of the problems that they ran into with a few customers.

Participants:

Name	Affiliation
Burton Grad, moderator	
John Chamberlain	Chamberlain Associates
David Hicks	Hicks Consulting
Steve Kenda	Kenda Systems
Phyliss Murphy	P. Murphy & Associates
Bjorn Einar Nordemo	Data Arts & Sciences
James Ross	JM Ross & Associates
Fred Shulman	COMSYS, AETEA
Peggy Smith	Data Masters

Burton Grad: This workshop is to discuss your relations with your customers. What we'd like to go through is: How would you identify prospects? What were the marketing and sales approaches you used? What kind of work were you doing? Was it project work or were you all body shop? Did it start to change or blend over time? What were your contracting policies? Who were your competitors? What ethical issues did you face? Let's start with the type of work you were doing.

John Chamberlain: Ours was body shop.

David Hicks: We called it contract consulting.

Chamberlain: They were temporary personnel.

Grad: How did you monitor performance to make sure that the client was being satisfied? What did you do if he had a problem with one of your people? How did you handle that? Did you go to different categories of customers and, if so, how did you choose if it would be government or commercial or different machines or different industries? And how did you get on a preferred vendor list? Those are the kinds of issues that I'd like to explore.

Chamberlain: What's the time frame?

Grad: We're going to start from 1970 on for the early firms before NAACB and then what happens after 1706. There may be some later changes that you'll want to talk about. We're going to end around 1995. We focused this morning in the plenary sessions on the Association itself. The workshops are focused on the companies. The final plenary session, tomorrow morning, will be back to an NACCB discussion.

So let's start with the 1970s. How did you identify prospects? How did you get started? Which of you were in business in the 1970s? Bjorn, please go ahead.

Getting Customers in the 1970s

Bjorn Einar Nordemo: Well, I started purely by accident because I had closed down a business that I had that was doing software development, and I ran into a friend of mine who was working for Digital Equipment Corporation. He was looking for a contractor, so I became the contractor.

Grad: You were the first employee?

Nordemo: I was the first employee.

Grad: So they came and, in effect, discovered you or identified you, rather than you going out looking.

Nordemo: Sort of a joint scenario. I knew him from before. He actually had been an employee of mine in the past and so I started contracting at that time and ran across a whole bunch of other contractors there. Everybody was independent. Nobody was through an agency to speak of. The two of us decided to join forces and provide more personnel. Digital Equipment Corporation was growing and it was a phenomenal place to do business; you were able to keep yourself and anyone you could find busy for as long as you wanted to in the beginning.

Grad: Now you were locked into a single customer. If that customer had a decline or decided to change practice, you were in trouble.

Nordemo: That would be correct.

Grad: How did you find the second customer?

Nordemo: Prior contacts, people that we knew, we were talking to them. I believe my partner knew somebody in the insurance industry that he went to. They needed some people, and it just spider webbed out.

Grad: Sort of spider webbed out without a formal marketing program or a formal prospecting program.

Nordemo: Right. We had enough people that we'd worked with personally over the years that were good entrees into a tremendous amount of different companies. Fidelity and other insurance companies are a big industry in Boston.

Grad: Peggy, yourself?

Peggy Smith: When I started in the late 1970s, I was with LAMBDA, which was a professional services firm.

Grad: When did you leave to go out on your own?

Smith: By then I was in North Carolina. They had transferred me to North Carolina to an existing GE branch, but it wasn't a professional services branch. It was a GEISCO branch; and they knew nothing about consulting. So I worked there for a couple of years. I was the marketing person. I learned who used contractors and who didn't. We checked the ads in the paper. You just see who is hiring. You knew it was mostly Fortune 1,000 companies. You just cold called. You just went out there and called on them.

I left when GE put on a hiring freeze, which really isn't a really good thing to do in the consulting business; so that was the final straw. We started our own company. We did work for Wachovia. We did work for RGR.

Grad: Were these all people you had worked with before? Were these customers you knew and who knew you?

Smith: Well, when I moved down from Philadelphia to North Carolina, I had to start from scratch. By the time I left GE, then they did know me; and, frankly, they didn't care whether I worked for GE or Data Masters. I'd been working and giving them good quality people for a good price. So it was transparent.

Grad: Who else was in the 1970s? John?

Chamberlain: I was new. I came to the Bay Area in September of 1978, and I started my business in August of 1979. The way I found prospects was that I figured they're looking for permanent hires, but I didn't know the Bay Area at all, so I read. Every Sunday I got the San Francisco Chronicle and the San Jose Mercury; and I'd go through there and identify anybody who was looking for programmers. They would say what skills they were looking for, the whole deal, and I would just cold call all of them.

I started doing that for the company I worked for, and I built that from 12 people to 30 in eleven months. So I just did the same thing for myself.

Grad: When you left, didn't you have any non-compete issues?

Chamberlain: He did take me to court, but we had no contract. He didn't like to sign contracts with people; and it ended up being a lesson for me. It got into court; and it got thrown out.

Grad: Were you frozen for a period of time in making that transition because all of you worked for some other company and then went out? You had your own so you didn't, but many of you came from doing contract work yourselves.

Chamberlain: No, there was no contract, no freeze. I just started.

Grad: You just kept on going. With him suing you, you weren't worried about that at all?

Chamberlain: No, I was worried about the money. So it was just cold calling. I started in August and by the end of the year I had seven or nine people out, and they were in a variety of different customers, National Semiconductor, Singer-Link.

Grad: Let me ask a question. Anybody else start in the 1970s before we move ahead?

Hicks: In 1969 I started with Management Careers to improve placement. When I left them after a year and a half, I started the Computer Services Group, doing permanent placement. In 1972, the client asked us for contractors, and I didn't know anything about that. We were in downtown San Francisco, and we didn't view companies as clients. We interviewed the managers who had the projects; and I think that that was probably universal in that time.

Even today, you need to have that individual hiring manager who runs the project. He is your client, or he is your salesperson's client. It continues on and self perpetuates the personal service aspect of non-commoditization. This is probably the best way to do it.

So from the permanent hire side, we had eight or nine companies, Wells Fargo Bank, MasterCard, Bank of America, Crocker Bank and so on. It was downtown financial companies. These were the big IT shops. So once we got those first three contractors placed at Transamerica, we took one look at this and went, "Holy Toledo, we're making ten bucks an hour on this stuff!" My partner stayed with the career side. I ran with the contract side, and the model has stayed the same.

Grad: How did you continue to get new customers?

Hicks: Network, network, network. If you're working with Charlie you map out the organization. Oh, the other thing is, it was very easy to steal phone directories from lobbies. It was very easy to steal organization charts off of people's cubes. You would never see a phone directory in the lobby of any company today. It doesn't happen. I had phone directories of every single major client in the Bay Area that I wanted to do business with because it was very easy.

Even if I could not get Charlie to refer me to anybody else, because he was that kind of a guy, but if he did like doing business with me, I'd simply find out who the other project managers were and call them up and tell them Charlie sent me. I mean I'd tell them whatever I needed to tell them, depending on what kind of a response I got.

Chamberlain: Yes. One thing I just should add here, just real quickly, is that there were no vendor lists in those days, zero.

Pricing Services

Grad: How did you do your pricing originally?

Hicks: It became pretty clear that the contractors themselves were beginning to get more and more savvy. You couldn't chisel them because it was too small a world. They all knew each other.

A lot of them in the beginning had a negative attitude toward brokers because we were taking money out of their pocket, so there was that whole issue of educating them. We wanted to make sure that we paid them a competitive rate, anywhere from 30 percent to 80 percent above what their annualized salary would be if they were staying on as a staff programmer in the shop. Then we'd take our margin on top. In those days you could get 25 to 30 percent margin.

Grad: So you were working with a percentage margin above the base for that particular individual.

Hicks: Whatever the labor rate to the contractor was. In those days everybody was independent contractors. There were no W-2 issues at all.

Grad: Let me pursue this. This is a fundamental pricing issue. You talk about it as though it is cost based. You know what the guy wanted to collect from you, to which you had to add on your markup, and that's what you went to the client and said, "This is my price." Or you're talking about what the client was willing to pay and then you had to find people to match it or not. Or did I misunderstand you?

Nordemo: No. In my case, because I was already there as a consultant, I knew what the rates were that they were willing to pay. So I had to work out the spread that I was willing to deal with and the kind of people to fill that.

Grad: So how many people here ran their businesses on cost-based pricing and how many on market-based pricing?

Hicks: Our clients weren't savvy enough. Many of them never used contractors. This fellow we made our first deals with, the entire company had never hired a contractor.

Grad: So you were able to put the rate on that you thought was appropriate. How about you John?

Chamberlain: I think I was a little later than that. The people I was dealing with were big users of contractors, so they pretty much knew what they wanted to pay. I had some sense because I had worked for this guy for eleven months. They were W-2s only. He wouldn't do independent. But I had developed a feeling in my mind that a fair break was 25 percent of the gross revenue.

Grad: So, on each dollar, 33 percent up.

Chamberlain: Yes, that was about a fair amount to cover expenses, to make a profit and return on investment and yet give the contractor a fair percentage of the deal.

Grad: What kind of rates were you charging then, typically, in the 1970s?

Hicks: Twenty-five or thirty-five dollars per hour.

Nordemo: Yes, I was going to say mid-$30s--$30, $35, in that range.

Grad: Thirty-five dollars per hour for an eight hour day is $270; that was what you were charging the client. So you dropped 25 percent off of that, and that's what you were paying.

Chamberlain: We wanted to get the contractor 30 to 60 percent above what his hourly rate was when employed independently to induce them. We actually invented contractors in the early 1970s. We had seminars at hotels to convert people, W-2 people, all up and down the financial district in San Francisco with free wine and cheese. Here's how you do it. Oh, by the way, you can get incorporated. Here's our lawyer. Here's our accountant. And it worked like crazy.

Grad: I assume someone will pick this up at the other meeting because that's a very significant thing. Peggy, is there anything about pricing that you want to add?

Smith: We were in North Carolina, and we did a similar thing to what David did. We would get people, and we would talk about how you can become an independent contractor. We would place them and pay them. Our average rate was probably $35 an hour, and we paid them probably 75 percent of that.

Grad: So you would get about 33 percent markup on what you were paying.

Chamberlain: But you need to remember that we're talking about the difference between the West Coast and what you're going to find in the Midwest.

Grad: None of you here was active in the Midwest during the 1970s?

Phyliss Murphy: I was active in the Midwest in the 1970s, but not as my own company.

James Ross: I was. I was active also as an Independent Contractor, contracting through Bjorn or someone else.

Grad: When you got a contract, did you go to them or did they call on you?

Ross: Generally, they would call on me; and they would have a pretty good idea of what they wanted to pay, what they were willing to pay. Most times the consulting companies would not tell you what they were going to bill. That was one of my major complaints. I think that was a major complaint of a lot of the contractors because that led them to believe you were taking them to the cleaners. And, on the other side of the coin, the consulting company would also not tell the client what they were paying you.

Grad: None of their business. Phyliss?

Murphy: I managed branches on the West Coast and the Midwest, and it was like two totally different worlds. And I had contractors working on the East Coast, so I had it sort of spread around, but it wasn't my company. It was somebody else's.

We had clients, they had budgets, and they told us what they were willing to pay and we worked from that. We had other clients that didn't have an idea and those we would go and work the markup based on that. So it was with whatever client you dealt with, and we dealt with predominantly large companies. In the Midwest I sort of specialized in the insurance industry and problem clients. If you had a problem client, you handed it to me.

Grad: Steve, were you working in a lower cost area in New Hampshire?

Steve Kenda: No, they were all higher cost, Boston, New York and D.C. Only the headquarters, the back office, was up in New Hampshire.

Chamberlain: He just didn't want to have his company taxed in Massachusetts. There's a major highway of commuters that go up there and live outside of Massachusetts.

Prospecting for Clients in the 1980s

Grad: Let's now move out of the 1970s period, briefly, to prospecting in the 1980s, before 1706. Most of you had businesses by then. Did anything change in terms of how you located clients, how you prospected for them?

Murphy: It did for me because I went from a place where people knew who I was and there was a relationship, to Los Angeles and Los Angeles has no relationships. It's a totally different model. It's cold calling. It's "you don't have to be in business for a long time."

In the Midwest, the East Coast, they say, “How long have you been in business.” They want to make sure you’re stable. The West Coast, they could care less. If you hit them the day they have an opening, you place a person. That’s it, and you may end up with a relationship. It’s just brutal, brutal cold calling, pounding. You identify who is using them, and you just go after them. You try to build the org chart. You try to work in. It’s totally different.

Ross: Sometimes you can look at the resume, too. This was a common practice. Look at a person’s resume, for example. You’ve worked at Anheuser Busch and you worked at Monsanto. So, one of the things is that now you that you work as a contractor, what I will do is try to do is get you back in or actually get the name of the party that hired you, that came through on a reference.

Kenda: There’s a macro difference, too, between the 1970s and the 1980s. I think the general economy was tougher in the 1970s. By the time I got in the business, late 1984, the economy was starting to roar after the Reagan revolution; and it was much easier.

A lot of competitors in New England were largely MIS and Data Processing; and my background was more engineering. At that time, for minicomputers in New England, we had Wang, Honeywell, Data General, Digital Equipment. I mean it was a goldmine with these all needing the same set of skills for embedded software, operating systems, linkers, loaders, compilers.

Grad: But your clients are going to be users. Did the manufacturers help lead you to the clients?

Kenda: The manufacturers were my clients. They all had software needs at the time and so those were the bulk of my clients.

Grad: Oh, so you were selling directly to the manufacturers.

Kenda: The manufacturers had project managers involved in software. We sold to those project managers. All the manufacturers had software needs. They were all building either word processors or database systems; and they all had operating system work that needed to be done. Data General, Digital Equipment, Wang, Honeywell, they all had software inside their hardware.

Grad: Okay, I’m going to stop you. Let’s clarify. I felt that you were all talking here about applications for user companies primarily.

Murphy: We were. I am.

Ross: I am.

Smith: Yes.

Chamberlain: Yes, that's what we do. There's sort of a split.

Grad: Interesting difference here now. So talk about prices. If you're working for a manufacturer, don't they have a pretty good clue as to what they're willing to pay in most cases?

Kenda: No, business was open and naïve at that time. To them, hiring people was completely different from sourcing technology in Taiwan or something like that.

Nordemo: Well, one of the things that was happening is all of the companies that Steve just mentioned were rolling like crazy. They were trying to hire anybody they could. They couldn't hire enough people. They came to companies like ourselves with temporary personnel available, and said, "Bring me people." We would bring them people; and they would hire them as temporary contractors on contracts that lasted anywhere from three months to six years.

Grad: So the mini market was really the market you focused on at that point in time? Is that true with you, Steve?

Kenda: Yes.

Grad: Did any of the others of you focus on that particular marketplace?

Hicks: One time I had gotten the exclusive contract with Hewlett Packard to provide contractors for their HP US system and for five years I worked for them until all the competition got to it and then the Indians came in.

Ross: Another thing that happens is a real easy way to turn around. If you were just out of college and maybe had a year of experience and you wanted to get your salary and experience up there, a real good way to do that would be to go to work for a contracting company because we're paying \$25, \$30 and hour, which is \$50,000 to \$60,000 a year. If you went to work for a company, they might pay you \$30,000 a year.

So once you got to the \$40,000, \$50,000 a year amount, the client comes around and says, "Well we'd really like to hire you." They will try to work out a deal to get hired. Now you have a very knowledgeable ex-contractor sitting there. So you go into the place now and say, "Well I was \$60 for this"; and he's going, "Uh Huh, I know better than that." And those things were happening all the time.

Grad: Different marketplaces. If you're doing systems software brokering, if you're doing advanced technology, you can't take people directly out of school.

Murphy: We placed people in the 1970s. It was supplemental labor. But what we would do is we would get stronger and stronger in the company and pretty soon we were managing our own projects and we could use junior people. We'd hire people out of college, give them some basic training on how to be a consultant, put them in. But it was on a project where it wasn't supplemental labor.

Selling into the Information Technology Market

Grad: Let me close this off. We're still in the 1980s here now, before 1706, some changes you're saying, but that was mainly because of the market. You had incredible growth of that particular segment you were in, right? That mini market just went like crazy during that period, and the general business was really good.

Chamberlain: The IT market.

Murphy: The IT market, but it was totally different.

Grad: How did you change your selling process?

Murphy: Well, the money used to be consolidated in the IT or DP, or whatever they called it department; and you just worked that network. Once in a while you'd get a contract from a user; but most of them didn't have much budget. And you really worked that, so you had a capsule that you worked within versus this diffused market, where you could sell to all kinds of people.

Grad: Let me focus that. When you were selling your services, it would be to the IT department in the user companies.

Murphy: At that time.

Grad: When you're selling your services into the manufacturers, you would be selling different projects wouldn't you?

Nordemo: You'd have 40, 50 IT departments.

Grad: It's different IT, in the sense of the CIO kind of IT. This is a grander data processing operation as you were saying.

Nordemo: I'm sorry, but there wasn't any one person in the company that ran IT per se.

Hicks: There may have been a CIO, but he didn't care about contractors. It was all done at the project manager level, and it still is.

Grad: My recollection is IBM sold to the highest level DP guys.

Hicks: They swindled the guys up high, charged a hundred fifty dollars an hour for people that we could provide for $50 an hour.

Chamberlain: But we didn't have access at that level. I mean I sold for IBM. I've done that type of selling. In this business, it is bottom up, as David is saying. You're selling to the hiring managers.

But the other thing I wanted to bring out, I discovered that there was a hell of a big market in Silicon Valley calling on the engineering departments. I was very catholic about it. I didn't care. I had done this whole process of looking at want ads and anybody who was hiring people; my assumption was we could find them. So customers early on used to ask certain questions like, "What skills do you specialize in?" What we specialize in is handing you exactly the person you need. We are a staffing company.

Ross: That's right. Tell me what you want and I will find it.

Grad: Fred, what did you want to add?

Fred Shulman: I was going to add that, back then, we were selling managers on why they should use consultants versus full-time people. One of the things that worked very well for us is a lot of times the higher-ups in the companies had a hiring freeze, but the managers still had to get the work done. And usually contractors came out of the capital budget and not the employment budget.

So we justified the rates by telling them it made sense because your company doesn't have to pay the benefits. You don't have to do all this. These people leave. They'll come in, they'll do this part of the development and then they'll go. Of course, they stay there forever because it's like a moving train, but we were sort of educating them on how consultants would fit into their organization.

Murphy: It would be interesting to ask when that selling changes because people who sell now never have to do that; it did change.

Grad: It did, yes. Let me just sort of conclude the pre-1706 then if I can. Basically did a lot of you do your own selling or did you have salesmen that you hired?

Everyone: We hired our own salesmen.

Grad: So you hired salesmen; and they were out calling on these same kinds of people we were just talking about. Your pricing was a mixture of cost-based and what the customer would pay for markup; but you were working to a margin. And you did, too, Steve?

Kenda: Yes, I was just going to add the point about whether it was a $40 an hour or $50 an hour was, as time went on, it wasn't the project manager that had the signature of authority but the director that he worked for. And the approval went from $20,000 to $25,000. If you do the calculations, that's a three-month contract at either $40 an hour or $50 an hour. We got a rate increase because their signature levels went up to $25,000 for a three-month contract.

Contracting with Customers

Grad: The contracts you were using. Is there anything you want to add about the nature of the contracts? Were you using purchase orders primarily then? Were you writing the contract? Were they writing the contract?

Kenda: No contract. It was a confirmation letter.

Murphy: We had a contract. I always had a contract.

Ross: Confirmation letter.

Chamberlain: Confirmation letter.

Competition

Grad: The last item on there is competition. Were you facing each other on these things in the 1970s and 1980s up to 1706?

Murphy: Oh, absolutely.

Chamberlain: Up to the 1980s really. Mid-1980s.

Nordemo: In the early 1980s yes, the early 1980s.

Kenda: With a much higher level of distrust. There was much more distrust.

Grad: How did you compete? Were you competing on price? Were you competing on skill?

Kenda: The candidate pool was very scarce. That was the hard part.

Nordemo: Steve's right. The candidate pool was extremely limited; and all of us would have the same pool of candidates so it would be a matter of timing as to when we called them. It would be a matter of our individual relationships with the contractors, in other words, how true were they to us versus "Hey, who's got another buck?" So it was very, very difficult; and we did bump into each other, especially in the early 1980s, constantly.

Grad: Bjorn, I'm going to flip this just a minute. Customer X has a requirement. Either you've been cold calling him and now you hear about it, or somehow he chooses to call on you and says, "I need an X." Would he have gone to five others sometimes?

Smith: Sometimes.

Grad: So then it would be a matter of what skills he needs. Can I find the person faster? That time for the recruiting effort, recruiting in the sense of getting the right candidate.

Kenda: And then you get into the ethical dilemmas.

Grad: How do they come in? Tell me about it.

Kenda: Well, there are a couple of different scenarios. One is they said, "I've got this candidate; but I really don't have time to call him and find out whether or not he's interested. I'm going to get him over to the client so I'm first in." And what that would result in was as soon as the candidate got called by someone else, then they got sent in by that someone. Now you have a double submittal of the same candidate to the client. The client says, "Well, who's got the candidate? Who owns him?"

The other side of the coin is when you call the consultant, and the consultant thinks, "Well, thanks for alerting me about the job; but I'm going to tell my best buddy over here, alert him. We'll let him send in a resume. I'm not interested, but he is."

Grad: Was that a just concern?

Kenda: Oh, yes, that really happens.

Chamberlain: I think what led to our [NACCB's] fairly tight ethical code was that it pretty well worked that way in the Bay Area. In the early years my practice was that I would call a contractor, and these are guys that I knew and interviewed before, and I would lock them. I would lock them up. I'd describe the job without telling them who the client was. "Are you interested?" "Yes, I am." "The rate is about such and such." "Okay." "Would you like me to present your resume?" "Yes." "Okay, well I'm going to present it to National Semiconductor to this manager and then if anybody else after that calls, you say 'Sorry, I'm already dealing with Chamberlain.'"

Grad: But suppose he got a call from your competitor with job Y instead of this job? It isn't the same job. He was free to be available for that?

Hicks: Absolutely.

Chamberlain: And the same customer. It could be another manager.

Grad: But you present him to the client. The client says, "Hey, I like him;" but he was also presented to another client at that same company.

Chamberlain: It's a separate transaction.

Kenda: If they go on the interview, they accept the position - and then they get a call for $1 an hour more and take the other job.

Ross: And, also, as they were saying, if there are five of us here and we have a particular consultant out there, I may call him first and I tell him $20 an hour. Well, the next one that calls him may be Phyliss, and he says, "Well, I've already got a call from Ross and Associates at $20 an hour, what will you do?"

Murphy: Actually we started from the Z's when we called up because everybody else was starting from the As.

Chamberlain: The key to success in the end is your relationship with the contractor, the recruiter's relationship with the contractor and the methodology of the lock up. You created a conversation with them that was ethically based, and you got a commitment and you closed both sides of the deal.

Hicks: You front end closed the candidate. If you front end closed the candidate properly, when somebody makes a commitment, any person who says, “Yes, I agree to that,” is going to have a harder time in their own head and soul breaking that commitment because it’s human nature of a reasonably educated class in this society to not break commitments.

So if you train your recruiters effectively in that method of locking up the candidates, the odds of somebody else’s sweeping in and snagging your candidate is low.

Chamberlain: Or if they ever broke a commitment, ever crossed me, I never did business with them again.

Ross: That’s right. That’s why I think your rapport with the hiring manager oftentimes would help matters. Because if you made the presentation and then Bjorn came behind and made the same presentation, if I had a good rapport with that hiring manager he would probably give the spot to me.

Grad: Let me ask you. On the selling side, could you lock the client up by saying, “If I get Pete so and so within five days, do I have the contract?” Can you do that?

Murphy: You ask for that.

Grad: Do you ever get it?

Chamberlain: Rarely. Most of the managers would look -- if there was more than one vendor – they would look at the candidates that we presented to them and then they decided which ones to interview. They make the ultimate decision; and we won a very high percentage of them because we were very good at making the matches. So it was fine.

Managing a Broker-Type Firm

Grad: Let me ask you a question, listening to all of you. It sounds like most of you are very much involved in the selling side, rather than as heavily involved in the recruiting side. Is that a fair statement?

Chamberlain: Right, correct.

Murphy: I think we all have been out there either helping them close but working with them to teach them to close.

Grad: Some of you came out of a technical background, technical experience, but that's what's interesting here. Did you become general managers? Did you become marketing managers? What did you really think your primary skills were? Let's ask some of you. Did you think of yourself in this regard? Bjorn, why don't you start it off?

Nordemo: Well, initially, marketing and then eventually running the business.

Grad: The general manager.

Nordemo: Yes.

Grad: Peggy, how about yourself. You've come through a little different pattern?

Smith: Well, marketing at first because LAMBDA, they only hired female marketing reps at the time and they had a large staff. They had, I think, 1,000 consultants when I joined them. They also had technical managers, so if I got a call down at DuPont then I would take the appropriate person that knew about manufacturing, knew about chemicals or whatever, with me.

Grad: Stop a minute. My memory is that LAMBDA was primarily an employee-based professional services company.

Smith: All employees. Right, and that was in Philadelphia. And then, moving down to North Carolina, I think the markets were different from a lot of these guys because we had competition, but we didn't have a lot of competition like us. We had the CTGs and those kinds of folks; and we could move on a dime and we could beat their prices. Is that what you meant, Burt?

Grad: Yes. I've been trying to get you to discuss more, as you had your own company, the roles you played there. And you had said before that your initial role in your own company was as a marketing person.

Smith: Yes, and we thought we needed a marketing person, a technical person and a recruiting person.

Grad: Now, Fred, you gave me a different picture. Your primary role in the company when you started your own was heavily in the technical side. Is that correct?

Shulman: Started the company by technically consulting myself, bringing in more people, going to a different company, doing the same thing and sort of cloning it.

Chamberlain: He was a Judas scout.

Shulman: That's a good way to describe it. But we always felt that the technical side gave us an edge. Even when I got out of being purely technical, we tried to do team selling because we felt if we'd go in and talk to the manager and ask them questions about their project, just not what you need, that that would be a differentiator for us and, hopefully, give us exclusives. Not everything worked all the time; but it was kind of different because other people just were in there.

Grad: As straight salesmen.

Shulman: Yes, give me a list of stuff you need today.

Grad: Steve, you were very young when you started your own business. What was your main focus? Was it the selling side?

Kenda: Yes, same approach as Fred. I went in on a technical basis, tried to bring in my salespeople and took contracts, actually, for the first six years of my business for three to six months out of the year. And the rest was general management.

Grad: Interesting. Phyliss, yourself? You sound like you worked in a managerial level relatively early.

Murphy: I found out about myself in the first year. Because I was poor, operating on my kitchen table, I did the selling. I did whatever, but I immediately figured out that I really did not like rejection. I liked people to say "yes," not "no," so I went out and hired four salespeople. I borrowed money and hired four salespeople and started training them. I figured that I would be doing better training them and doing sales support and managing and figuring out how the company should go.

Grad: You were the general manager fairly early.

Murphy: I did, yes.

Grad: John, your evolution in this?

Chamberlain: Well, I started with very little capital and so I did everything. Originally I was sales oriented, that's what I did for the guy I worked for. But at the beginning of the business, I sold and recruited; and my ex-wife was doing the books, so it was all out of the house. I did that for three years.

So I actually found that, kind of like Fred, I liked doing both sides of the deal. I really knew the first ten or fifteen contractors I hired. I also knew the customers personally, so I was doing fabulous matches. Those guys stayed there; and I had very few problems.

Grad: James.

Ross: I was the whole thing. Like Phyliss, I started in my dining room in an apartment on a table half this size with a phone; and I started making phone calls. That's all.

Grad: But you had a technical background.

Ross: I thought I had an advantage because of a technical background, because I had been everything from an operator to an assistant administrator to a database administrator. So it was easy for me. I could talk the talk, so to speak, and that would help.

I want to say one other thing. From the Midwest, too, and again I think it's a different approach, what I tried to do when I went after the clients was, "Hey, we're all in the Midwest. They grow these honest guys and this kind of stuff here and so I'm going to look you in the eye and I'm going to tell you the truth." That kind of stuff.

And, really, I had rapport enough with some of the hiring managers that I was able to turn around and actually convince them to make a change of decision. Down at Anheuser Busch I think you're going to make a change of decision of somebody they were going to hire if I said to them, "You really need to look at this guy, okay, you really do." They would do it.

Hicks: Well, I admitted earlier that I was a failed programming trainee. Then when I had training in permanent people selling and permanent people recruiting, you do it all. That's the thing. So when I started both the Computer Resources Group and, ultimately, Hicks Consulting Group, I did both. Early on I hired salespeople for situations but continued in the selling side.

I continued in selling until, well, into maybe 1991 or 1992. I wasn't the sales manager per se. Well, I was a functional sales manager. I had three or four salespeople; and they come and they go, that type of thing. And I also recruited but then, ultimately, handed that all off to other people.

<u>Business Changes after 1706</u>

Grad: We're going to move ahead now to 1706. What changes? We get the shock at the end of 1986. Now we're in 1987. You have terrible problems convincing your ICs whether they should convert, not convert, looking at your business models and so forth. And now my question is what changes from a customer relations standpoint? Some of you say the customers were insistent that you be W-2 only. Steve, why don't we start with you?

Kenda: I had none of those problems. I mean we were aware of it. At the time, I think the most significant event was actually the formation of the New England Chapter [of NACCB]. Now we would actually start collaborating or sharing with each other different bits of information that were going to be helpful.

Maybe you can say we stuck our heads in the sand for a little while. I was not worried about the IRS coming around. I was going to say, "All right, if it happens, it happens, but in the meantime I got a business to run. I'm not going to sacrifice anything; I'll make a transition over time."

Grad: Did customers ask or insist that you make a change?

Kenda: No, the clients worried, but I don't think a third party lawsuit even hit clients before the early 1990s. I do not remember any client coming to me and insisting that we drive our contractors in one direction or the other.

Murphy: I did switch everybody to W-2 immediately.

Grad: Was it customer pressure that pushed you or your own fear?

Murphy: Well, it was both. We had a number of customers that had some issues, like the entertainment industry, some of the aerospace companies really were just adamant. And, interestingly enough, Computax had been audited and found they had a whole bunch of Independent Contractors as accountants. And, as soon as this came out, they said, "You will pay everybody with a W-2." So what we did, since we had made the switch, is that we went out and changed our marketing approach to educating people on why doing business with us was safer than doing business with people that hadn't switched. Because our model changed we always said, "And if it changes back, then we'll go back to the old way."

Grad: As far as prospecting was concerned, that didn't change, but your selling message changed. Is that accurate?

Murphy: The message was changed. Our commission structure totally changed. Some of the salespeople, the way they were paid was changed, but we still sold from the bottom up. I mean, we sold to people that made the decisions.

Grad: Fred, how about yourself?

Shulman: I think ours was sort of like Phyliss. One of the things, maybe it was just the Washington area, but we had to have contracts with all of our clients. A lot of our clients were government-related so they had contracts with their clients. Others were aerospace or communications; but everybody always went to contracts. So we had to go back and review our contracts; and they came back and said, a lot of them, "You can't have independent contractors. They must be your employees." So we had to go out and talk to them.

There was a lot of upheaval at some of the clients with the Independent Contractors. They were wondering what was going to go on. We chose to convert everybody and tell the people that if things change, we'll convert you back. In some cases it was forced by the client; and we had to go out and talk to the managers because the Independents were saying, "If you convert me, I'm leaving." And, like I said, a third of them did. So we had some PR to do with the managers, to explain to them that, hey, this isn't us. This was a law that was enacted that we're just trying to follow.

Grad: Let's keep going. Peggy.

Smith: It was not customer driven at all; but we were sufficiently horrified and terrified that we went out and had a meeting with all of our ICs and converted them over.

<u>Profit Margins</u>

Grad: Did your prices to your clients change significantly as a result of that conversion?

Murphy: Not immediately, but they did long term.

Grad: Let's stay with that. David?

Hicks: Well, if you've got a $50 an hour Independent Contractor you're billing at $75 and you're trying to make a 30 percent markup or 33 percent markup on that thing, and you've now got a 12 percent tax burden, you've got to mark the contractor down. The contractors take that very unfriendly.

Grad: Let me make sure I understand. So your costs went up because the contractors wanted to be making similar amounts of money as what they had made before, is that fair?

Chamberlain: They wanted us to pick up the tab [the additional costs, taxes, etc. required to employ them].

Grad: They wanted you to pick up that 12 percent.

Hicks: Well, we didn't do it that way; but there were people who chose to do it that way and trying to convert, I mean, that's what you ran into.

Chamberlain: I just took it in shorts because I would have lost so many. I couldn't afford it.

Hicks: We morphed it over time. We never went to a mass [contractor to employee] conversion. We only just redid it as new people came along.

Ross: We were pushed. Well, we didn't make a change because, as I said before, the Midwest was a little different. There were plenty of clients there that never heard about the Safe Harbor and stuff. We knew it and so, when we talked to a contractor, we would try to push the employment model; but if the contractor said absolutely not, then we went with whatever the route was.

Grad: Typically, the statement has been made that your margin in the employee-oriented professional services, after all your expenses and all your costs, direct costs, they were running about a six, eight, nine percent margin of the total revenues would drop down to the profit line, something in that ballpark.

Murphy: During that period?

Grad: Of every revenue dollar, the professional service companies, the AGS's, the SDA's, those companies, the numbers would run about six to eight percent as profit down to the bottom line. The really successful ones, like LAMBDA was one of the more successful, would get up into the 12 to 15 percent.

Chamberlain: They were salaried.

Grad: I understand the difference. I'm just saying you guys still had some operating costs so you had some things to knock off from your 33 percent markup.

Murphy: At what era are you talking? It was different in different eras.

Grad: Pretty much through the 1980s and into the 1990s because I was doing evaluations of companies then and we were looking at these margins in terms of what people would pay.

Murphy: The 1990s were a different issue in my mind.

Hicks: The marketing thing changed for two reasons. One of them was the advent of the Indians coming in and the other one was the clients in our market here. Some of them – more in Silicon Valley, less in San Francisco – started mandating W-2's. There really wasn't a marketplace for contractors.

Grad: With the hourly salary, does that change your margins at all?

Hicks: No, you slam it down on the contractor.

Ross: Right, take it out of his hide.

Kenda: Well, our profitability actually improved because the 1099s were a more sophisticated group; and they would put pressure on margin over time. With the new W-2s coming in, you had a better spread to start with.

Grad: We'll talk about this more tomorrow in the business operations session; but what kind of margins, how much profit, were you getting per dollar an hour?

Kenda: Four to five points was a good year for me.

Grad: How about some of the rest of you?

Ross: In the 1980s?

Chamberlain: We were in business from 1979 through when I sold it in 1998. We never lost money, never, not even the first year; and we would range from about five percent to the best year I ever did, which was ten percent. We seemed to not be able to get past ten, so we were in about the five to ten percent range.

Grad: After tax or pre-tax?

Chamberlain: Pre-tax.

Hicks: Ten percent pre-tax and sometimes eight to twelve. We did consistently eight to twelve up until 1992, 1993, 1994.

Grad: One of the fascinating things, and we'll talk a little bit tomorrow, is return on investment. You were relatively low investment operations in most cases. You didn't have as much infrastructure, overhead, commitment to bench, some of those kind of things that some of the other companies did.

Hicks: Right.

Grad: But yet your profits are very similar to what they were getting. There's a report that's been put out by Barry Goldsmith when he had this firm look at all the professional services companies and Joe Blumberg, I guess, was at a lot of your meetings, wasn't he?

Roberts: Yes, we still do the report. Joe doesn't do it. The number now is 3.9 percent.

Murphy: Is it really?

Chamberlain: Wow, you're kidding?

Grad: Yes, because I know the studies that were done and I've seen some of these reports. I was doing valuations on due diligence of acquisition of companies; and my clients would just pay a lot less for professional services and pay less for the brokerage type companies than they would for the professional services. But software product companies were getting one to two times revenue.

Kenda: You had IP in a software product. There was no IP in our operations, even in the professional services. It was all elevator assets, and salespeople and recruiters went home at night. The contractors could leave tomorrow.

Grad: You're absolutely right, but there were some other factors for the price of software companies. They had to invest money without knowing if the product was going to sell or not.

Kenda: Gross margins in a software product were much higher than our operating margins.

Grad: But gross margin doesn't mean much in the products business the way they force you to do business. I didn't mean to get off track; but it's very interesting that your profits were very similar to what the employee-based professional services. I thought they would have been lower.

Ross: But, Burt, a lot of it depends on what your overhead is, too. If you are sitting up there in an office and you got this nice, great big mahogany desk and you're paying $1,500 a month rent for the place as compared to me sitting at my house and I'm sitting at a little wooden desk of some kind and making phone calls, I'm running 15 to 18 to 20 percent on my stuff.

Grad: Will you take a salary or not?

Ross: I took out of it whatever I could get out of it.

Grad: When you think about cost, did you include your cost as the manager? Some of you guys didn't. That was the point I was going to get to. You're taking money out for your management and so forth. The company is making this, but you're making that.

Ross: Another thing, too, is when you turn around and you look at these salaries if you figure this stuff in. I don't know what it is anymore, but it used to be at the end of $8,000 for SDI, you don't pay SDI anymore. Well, believe it or not, that's another 50 cents per hour. If you've got 15 people working, now you're making another $7.50 an hour. If you get to the point of, what's FICA anymore for a full-time employee, six percent? Once you get to the $50,000, $70,000, $80,000, that's gone.

Okay, in this day and age as those salaries are going up, you're getting to these points a lot faster. Rather than paying the guy $20 an hour, you're paying $70 an hour so you're going to get to that $50,000, $60,000, $70,000 sooner.

Grad: So, first of all, what you're basically telling me is that the marketing models didn't change very much. Your prospecting didn't change much.

New Marketing Models after 1706

Nordemo: Excuse me, I disagree with that. When 1706 came about, one of the things that happened was that a lot of the companies that marketed permanent full-time employees made a fairly concerted effort to go educate the clients on why they should be doing business with them and only them. And one of the things that came out of that was not so much the issue of, "Gee, I've got to convert everybody to employees," but to wanting restrictive groups of approved contractors. That is something that started happening right about that time, and all of the customers started limiting. They started concentrating. The acquisition of personnel was taken from the managers on the line doing the projects and given to a procurement department or a purchasing department. And the purchasing department said, "I don't want to deal with 500 different contracting companies. I would like to have ten that I'm going to deal with." So now you had to start bidding and start getting into, "Well, okay, what are you willing to do," and so forth. They started almost demanding certain things from the contracting companies, and the preferred vendor list started getting narrower and narrower and narrower.

Grad: That was your experience. How about the rest of you? Did that happen to all of you or is that again local to the kind of business.

Chamberlain: In the Bay Area, the largest of the companies, Hewlett-Packard, Pacific Bell, some of the big banks, the big players started, as Bjorn was saying, introducing these approved vendor lists. So you had to respond to an RFP and then send a proposal.

Murphy: And negotiate rates, or at least prices.

Chamberlain: And later on they get into mark-ups and specifying what benefits you would give. So HP got down to the day of the month upon which you would send your invoice and the format of the invoice.

Grad: This is true of the 1990s, the mid-1990s?

Chamberlain: Yes. I mean it got so that there was no software package that could do this. We had about five different formats of invoices we had to send with different information on different days of the month. Some were due every 15 days. Some were two weeks. Some were monthly but their close wasn't necessarily the last day of the month.

Grad: Did the buying practices from the clients start to change during this period?

Chamberlain: Right.

Grad: It had nothing explicitly to do with 1706, did it?

Nordemo: I would think that was an impetus of it. In other words, the permanent employee providers had gone to a lot of the customers and were bending their ears and trying to get themselves to be used as the prime contractor. They were taking advantage of all the confusion that was going on, the distraction with 1706, the independent contractor issues and so forth.

Most of us didn't convert anybody. We hired new people. They became employees of a separate kind so that if we ever had to go backwards again, we would not have broached the issue of consistent treatment of employees or non-employees.

Grad: Back to the point, in your case, Bjorn, you believe that 1706 and the marketing reaction by your competitors, the permanent employee competitors, changed the customers' view as to how they should do business and with whom they should do business.

<u>"Co-Employment"</u>

Chamberlain: There's another factor. We were talking about 1706; but there was another issue also that started driving the legal departments into the relationship and then forcing these standards, and that was co-employment.

For example, Microsoft at some time was sued by a group of contractors who said, "We've been here for six years and we're really the same as these employees, so we should get Microsoft's retirement benefits," and all this stuff. That started to push customers to limiting how long somebody [i.e. contractors] could stay there [even when we were treating them as our temporary employees]. Companies would put these arbitrary limits, like they could only be there six months or a year.

Grad: I remember IBM put in a six month rule.

Chamberlain: So there was that issue. That also drove the thing about employees and then companies like HP saying, "Thou shalt offer your employees health benefits. Thou shalt offer them retirement benefits, 401K," or something like that. So we had to finesse ways to do these things and still keep them within the margin.

Shulman: In our area I didn't feel like 1706 changed the clients' vendor list. It was more of the success of the industry; and I think 1706, like Steve said, for us really propelled our company.

When we started using employees, there was a whole other pool of people who came out of these companies. Before, we were trying to convert some people and use the Independent Contractors out there. Now, we had this employee program, so now we had people coming in and we were saying, "Yes, we'll provide you benefits just like you got at Boeing or whatever." So it was more attractive. "And you can work on multiple projects." So we had a bigger pool.

More people started to see that this industry was the gold rush of the early 1980s and mid 1980s and late 1980s. And so, more companies entered the business. Managers started saying, "I'm getting calls every day from all these companies." I think that sort of precipitated some control over what was happening inside the corporation.

<u>Competition from Outsourcing</u>

Grad: Phyliss, any comments on this changeover?

Murphy: Bringing people from overseas was cheap with H1's, B1's, L1's, all kinds of weird ways.

Grad: Did you start doing that?

Murphy: No, but we suffered from it and that was sort of a crisis.

Grad: Was the competition from the immigrant labor force, particularly from India, at that point in time? I thought India was a little later, but maybe I'm wrong.

Hicks: There are two subjects on the table. The question was, was it 1706 that dramatically changed the industry? Yes, but not in the way in which the question is being asked.

It changed it in the way that was articulated here. It re-created us as a group of competitive organizations to become way more sophisticated. Ergo, the clients became more sophisticated. Ergo, the industry grew. Therefore, the clients became more sophisticated regarding co-employment [and other] issues. If 1706 was anything, it might have been a small catalyst industry-wide but it was a big catalyst for us to change what we did and become way more effective.

Murphy: And more profitable, as far as I was concerned, much more profitable.

Hicks: Yes, way more profitable.

Grad: My impression of the co-employment was that that encouraged the use of third party professional services firms, regardless of how they got their people, because now the company would say, "Not my problem."

Changes in the Marketplace

During this period, had the nature of who your clients were changed, the nature of the work you were doing, the level of work? Is it more systems analysis than just programming? Has anything changed in the marketplace during that time after, let's use the 1986-87 as a break point, from then to the mid-1990s, did it change significantly?

Shulman: No, not really.

Kenda: My market collapsed.

Grad: Why?

Kenda: Well, Wang and Data General, and even Digital, they all said, “Why does anyone need a PC?” They ignored the way the world was changing. So a lot of my clients were struggling, and it was 1990-91 in New England when we were having a banking bust. New York was in trouble. It was pre-Giuliani. The government was having budgetary problems. So the three primary U.S. markets I was in were all struggling.

Murphy: Yes, for companies that had a large volume of business with certain types of industries or certain clients, I think they could be hit real hard. For businesses that were broad-based because of fear of dependence upon one industry sector, I don’t think they probably were. They just flipped to the industries that were healthy because they had already built those relationships.

Grad: But it wasn’t because you were using ICs though. Is that a correct statement? I’m trying to separate it.

Hicks: It didn’t matter. ICs or W-2s.

Grad: I’m assuming then that NACCB’s roles, the things that they were doing with you, all started to change because your needs were changing.

Murphy: Well, NACCB became a marketing tool for most of us. We used it. We said, “We will protect you because we understand the laws and we understand the rules and we’re going with them and we have a code of ethics.” And I just did a proposal this week in which one of the main questions was, “Are you an NACCB member and how long have you been an NACCB member?”

Kenda: It’s great to have a sounding board [through NACCB]. 1990 and 1991 was a tough time, at least in my markets. There was a recession for most of the economy; and just being able to talk with other CEOs and have some comfort level. By that time trust had been established, and I could say, “What are you doing about this?” Just having a sounding board was great.

Grad: So, how did NACCB change and what were the needs you were expressing? How did they meet those needs?

Shulman: I was going to say one of the principles that nobody has mentioned of NACCB, which I think really brought everybody together, was that you didn’t have to operate your company using 1099s or employees.

All you had to do to join NACCB was not be against the use of Independent Contractors. So we had member companies that converted everybody to employees, some that decided to stay all 1099, some that had both and some that did project work. As long as you were in favor of the ability to have independents work in this country and in this industry, you could join NACCB.

Grad: I'll make a comment. We had an interview with Jerry Dreyer who ran ADAPSO for many, many years. One of his comments was if he had been allowed to do what he wanted to, NACCB would never have happened because he felt that ADAPSO made a mistake in supporting 1706. If they hadn't done that, he'd have gone after you people many years earlier. That was one of the things he said.

Murphy: Well, what 1706 did do was it brought us together as a uniting force. And, as an industry, we became strong. So if they hadn't passed 1706, we might not be where we are today.

Grad: Would you have joined ADAPSO?

Murphy: I was an ADAPSO member.

Smith: Really, I think it's been understated here, but most of us really did not like ADAPSO. We really blamed them for everything. I mean I'm just trying to be honest here.

Chamberlain: Well, Jack Courtney didn't help anything.

Grad: But Jack was just one president.

Smith: There were some personal things, though, I think, with Jack and some of the other folks; and to us, they were the enemy.

Grad: Let me ask you a question here. As competitors, were they coming into your customers and saying, "Don't use those ICs?"

Hicks: They would use our competitors because they were project companies. For the most part, in our marketplace here, they were not. They came into San Francisco with this attitude, "We're from Buffalo, and you're not"; and that didn't go very far.

What ended up happening is those people who caused us most of the problems were the NTSA members who were the staffing companies, who had come out of the aerospace industry and who had W-2 staff or hourly employees. They're the ones that caused most of the problems with 1706 in our marketplace here and in aerospace.

Grad: You're making a very good point. Very few of the employee-based professional services companies coming from the East Coast succeeded until later. In the rest of the country they did fine; but on the West Coast, they really failed totally.

Hicks: Don't come into San Francisco and take that East Coast attitude.

Grad: In other areas, though, as Bjorn was mentioning, they did come to clients, I'm sure, and say, "We have real people. They're ours."

Nordemo: Yes, CTG, SDA, they all did that.

Grad: That was their marketing approach, wasn't it?

Smith: Well, and they were turning folks in to the IRS.

Nordemo: To the IRS to be audited, rabble rousing.

Murphy: They were trying to kill us.

Chamberlain: They never got off the ground. They weren't even a factor.

Hicks: Nothing, they were zero.

Ross: Another thing that I found coming in [to NACCB], we were a small company but Bjorn was there for my assistance just the same as Phyliss was. And you're talking about relatively large companies. And, yet, when Jane and I came in, we had some ideas too, coming from the Midwest, about some of the things that these people have. And everybody just worked together. I mean that's what was really impressive to me is everybody worked together; and it didn't make any difference whether you were big or small or not. Everybody worked together.

Managing Performance on Projects

Grad: I'm going to switch topics now. You put people into assignments with these customers. I'm not going to talk time period now but just in general. You put them in. You generally didn't have project responsibility, is that correct?

Hicks: That's right.

Grad: How did you monitor their performance? How did you check in terms of customer satisfaction? What did you do, both from a business standpoint and a technical standpoint, in terms of the people you put on assignments? I'll give you a very simple example and then we'll go from there. Customer X doesn't like the IC that you put into his job. How do you handle that? What do you do?

Hicks: There are a variety of ways. Mostly they will inform us, and we walk them off the job. In our particular case, the vast majority of walk-offs have been from personality problems.

Murphy: Not technical.

Hicks: Sexual harassment issues. I had a very close call with Hewlett-Packard with a guy who was sexually harassing a pregnant woman. This was bad news. We physically walked him off the premises; and we still do it today when it happens.

Grad: You mentioned that the primary issue was cultural adaptability of the people rather than technical skill or technical incompetence. Is that correct?

Shulman: When they were basically the true Independent Contractors, my feeling was they were "Independents" for a reason. And when you put them in a corporate environment, they didn't always blend in well. So there were personality problems or issues with the management or whatever it was; but it wasn't particularly poor technical performance.

Grad: How about the rest of you? Steve how about your experience?

Kenda: We ran an annual client survey once a year where I'd send out a letter, personally sign it. It had ten questions, rate us one to five; and every client that had one of our contractors got it. We did that for the first seven years of the business. We'd get typically a seven percent response. That was with a self-addressed stamped envelope to return it. We would get a seven percent response rate, about that; and usually it was always 80 to 95 percent positive. We very rarely got any negative feedback.

Grad: If you put somebody in there that didn't work out, how did you deal with it?

Kenda: It's the Sales Manager's and the Branch Manager's problem. I was never involved at that level.

Grad: You didn't get involved in that personally. Phyliss?

Murphy: We usually call and do some spot checking; and, if they have a problem, we offer a replacement. I mean it is like, “Okay, this isn’t working. Do you want us to replace him? Do you want us to talk to him? What do you want us to do? We’ll do it.”

Ross: Whatever the client wanted.

Murphy: Golden rule, they got the golden rule.

Grad: What did you do about the money if they said, “Hey he wasn’t doing a good job.” Did you give them back their money?

Murphy: I have. I try never to, but I just did it recently.

Chamberlain: It didn’t happen often, but I did that. I found if you want to keep a customer, you have to be honest with them and be honest with yourself. And if we did things wrong, we either refunded the money (usually not) or put in another person to deliver what they expected to get. In the case where a tech writer completely failed and I put another tech writer in and that tech writer finished the job and then they were happy, the customer said, “I don’t care about the money. I just need this manual. I need it now.”

Ross: Sometimes some consulting companies would try to put people in without interviews. I always insisted that the client I dealt with always interviewed the person. And that saved our fannies probably a couple, three times.

Grad: It didn’t happen very often, is that what you’re saying?

Chamberlain: It was rare.

Murphy: Because we use round pegs. We don’t have a bench. I managed that kind of business before. When I managed an employee-based business, I’ve got these three people. I’ve got this opening. I’m going to try to take the best person and put him in that opening - and pray it works.

Grad: Fair point though. You want the work; and if you don’t find a person for that job, you have no shot at it.

Murphy: That’s right.

Grad: Do you think that’s different? Because I have a bench person, I have a greater obligation; and I take a chance?

Murphy: I'd rather keep my bench.

Hicks: And we still have a better chance of filling it with the "just-in-time" type of approach that we have, than any one company with a bench, because their resources are those 15 people on the bench. I've got 68,000 resumes in my database.

Murphy: And so we have a recruiting machine that is really different and streamlined and productive.

Grad: That's fascinating. I had these 200 people that were on my list of available housewives who wanted to work at home, and there was quite a range of skills. Unfortunately, most of them weren't as highly skilled as the people you were able to get. Many of them were a little out of date; and they weren't able to put in the hours. They weren't able to go to the client. Did all your people work at client locations, essentially?

Ross: Yes.

Grad: At any time during the 1990s did it start to shift over to where you let them work at home?

Ross: A little bit, but not much.

Grad: Tech writers, that was okay. Programmers, the clients would just not accept it?

Ross: Another reason why the currency of your database of contractors was so important. One of the things we did all the time was advertise because we wanted to continually get new people into that database. When that client called up and I went out to get three candidates, I wanted the most current people I could get my hands on.

Grad: They're exploring the recruiting side in another session. But in fact, a major part of your selling was how skilled you were at recruiting.

Smith: And screening.

Murphy: And quick at getting them.

Ross: Quick at getting them there.

Grad: We're going to talk about this, so I'm not going to go there for the moment.

Hicks: There's a subset of this, about whether or not companies like ours get paid. In the 38 years I've been in this business, I have under $200,000 that was owed me and not paid.

Murphy: Yes, very little.

Grad: Why? Why do you do better than some of the other companies?

Hicks: Well, for one thing, our tactic is when we know a client, clearly see that he was agitated over the money issue, the first thing we offer is to eat the margin, and most of the time they would go with it. A few times they said, "No, we're not going to pay for the last two weeks," or whatever it was. And the only other times I didn't get paid was when clients went bankrupt.

Ross: Yes and I had that happen once to us. One time in probably 20 to 25 years in business, we had a client go bankrupt -- I think we were probably out $8,000.

Grad: As an individual consultant, I was out more money than you, with a lot smaller business.

Hicks: They had a sense of obligation, that there is a quid pro quo. The hiring manager felt if it gets tangled up in legal, like I had a problem with the guy that got walked off, the sex harassment thing at HP, I had to eat some serious money on that one.

Grad: Did you try and go in to visit the customers? If there was a problem, would they come to you?

Murphy: Well, we also probably as a group go to customers that have money, established companies that have good credit. They pay their bills.

Nordemo: That's right.

Grad: But on monitoring of the performance of the work, they would tell you if there was a problem?

Ross: Yes.

Nordemo: It's more or less a reversal. Our salespeople were in contact with the customers on a regular basis to try to find more work, not "look in to see if the person is working out." However, a side effect of that is that the salesman is there. If there's a problem, the customer will tell him.

Sales Territories and Payment Plans

Grad: Did you give each salesrep specific accounts that they were working with?

Hicks: Named accounts is how we do it.

Grad: A named account – is that pretty much across the board?

Murphy: We started with territories. Then we went to accounts. Then we went to “you own the managers,” the “Texas Hold ’em,” as I call it.

Ross: Well, Phyliss and I sat down and talked about this one time and that’s why we kind of went in he same direction. You own the hiring manager. You don’t own the company.

Hicks: There’s more than one salesperson in an account. I’ve got three salespeople working Wells Fargo right now.

Grad: Steve, how about yourself?

Kenda: You own the manager, not the account.

Grad: So it’s not a named account.

Kenda: No.

Grad: Was there a single salesman in DEC?

Kenda: No.

Grad: But you owned the particular hiring manager.

Grad: Anything else on that?

Hicks: Our motto was this: David Hicks owns the accounts. I lease them to my sales manager. My sales manager rents the hiring managers to the salesperson.

Grad: Tell me about commission plans. How did you pay your salespeople?

Ross: Percentage of the spread.

Grad: Based on percent. Did all of you give them a base salary?

Nordemo: Base plus spread.

Chamberlain: Small base. Fifteen hundred dollars a month.

Murphy: I guess I am bad.

Grad: What did you do, Phyliss?

Murphy: They get $24,800. Period.

Chamberlain: And what's your percentage of commission?

Murphy: It runs from 12.5 percent for a new salesperson, and up to 30 percent as they add more people, get more billable hours.

Grad: The rest of you, some comments? How about you, Bjorn?

Nordemo: We had a base plus a percentage; and the percentage went up and up the more you made.

Grad: So you had an increasing percentage.

Nordemo: Based on the volume, yes.

Grad: Based on volume, not the other way around?

Nordemo: Oh, no.

Grad: I'm not firing you because you were so successful?

Nordemo: That changed after I got out; and it made the best salesperson leave real quick.

Grad: I've heard this argument. It's a wonderful argument as to what motivates people. Fred?

Shulman: Well, I was going to say we had a base plus percentage of the spread; and we did a percentage of the spread per deal.

Hicks: That's the way we did it.

Shulman: We tried to maximize every deal versus buying the business.

Murphy: Okay, ours is based on the deal.

Kenda: It wasn't the collective spread. It was spread per deal.

Grad: Spread, meaning the difference between what you were paying the contractor/employee and what you were billing the client?

Kenda: Adjusted margin, correct.

Grad: But you have people who are salaried. How do you do that?

Shulman: Base salary.

Kenda: Contractors' commission.

Shulman: Even the salaried people, everybody got converted to so much an hour.

Ross: Another thing, Burt, is that what I consider as the spread may be entirely different from what Phyliss considers as a spread, or what Bjorn would consider as the spread. I may be giving a percentage mark-up of 20 percent; but how I determine my margin is entirely different from somebody else's.

<u>Accounting "Standards"</u>

Grad: Did you set up standard accounting practices or things that you all followed for your reports? For example, Mark, did you do the reports or do analyses??

Roberts: We do, yes.

Grad: And don't you, therefore, have some guidelines as to what you consider the way that things should be done?

Kenda: It was one of the early benefits of the association. We were sharing.

Grad: We did the same thing at ADAPSO.

Roberts: It's not guidelines per se. It's basically showing folks the range of what others are doing, so there's medium, bottom quartile, top quartile. And actually we just started doing a very in-depth sales and recruiter compensation survey that really drills down.

Murphy: How you slice and dice that money is different in different firms.

Hicks: When you get it right down to the net, it's not that different because margin is margin, and employee overhead for W-2s, or employee W-2s, that's part of it.

Grad: Are you dealing with gross margins or are you dealing with net?

Chamberlain: We call it adjusted net margin. That's where the commissions come out. After the load, if it's a W-2.

Kenda: We started out with just a percentage of the margin. But in the 1990s we moved to a grid structure where, along with getting a percentage of their spread, the better the margin deal that they (the salesperson) negotiated, they got incremental points as well.

Hicks: If you get a 28 percent margin, you get 15 percent commission. A lower margin gets a 12 percent commission.

Kenda: Well, it wasn't a flat ten percent across the board.

Hicks: You want to make them, the sales staff and the recruiter, responsible for the profit of each deal.

Grad: Who sets the price?

Kenda: The salesperson. But if they had to go below a threshold, they needed their manager's approval.

Grad: So they have some range that they can work with, that they're allowed to work with.

Shulman: We used to set a target; and we found that, generally, if you set that target, that's what we would get.

Murphy: We have a price list.

Shulman: And we would try to increase the target. It's amazing how people always want to hit the target.

Hiring Sales People

Grad: Where do you find your salespeople from?

Shulman: We found salespeople from everywhere. I've been doing this for a long time. At the end of the day, and this is something I learned in an NACCB conference from somebody who did a survey, it wasn't people that came out of the technical industry. We found our most success was bringing in people who sold retail. We've hired people out of Nordstrom's and stores like that, people who have had customer service, have dealt with people; they have done very well for us. And that came out of one of the conferences that I attended.

Grad: The salespeople you hired, how many ended up being successful? How many gave you two, three years of good sales? You felt they were worth it, and you'd like to keep them.

Shulman: Well, I'm kind of embarrassed to admit it; but I'd say probably under 50 percent.

Ross: That's really high. I would love to have that.

Kenda: One or two was good.

Ross: That's it, right there. I've got two in 15 years.

Shulman: Well, I didn't say how far under 50 percent.

Grad: Bjorn, how about yourself?

Nordemo: To be honest with you, I don't remember at this stage. I've been out of this for 12 years now. Most of the ones that we had were successful; some to a greater or lesser degree. There was one that was really fantastic, and he earned more money than I did when he was there. But he's also the one that went off and started his own company after I left because they changed the commissions.

Grad: Where did you recruit your salespeople from?

Nordemo: No specific place. Most of them came by people we ran across in our dealings, either with customers or with contractors, or with other sources that we knew people from. We never went off after anyone specific.

Grad: Steve, how about yourself? Where did you find them from, and how successful were they?

Kenda: Coming out of other verticals. They were either engineering or clerical or even industrial. They heard the IT business was booming. They knew the body business. That to us was valuable, being able to sell that skill. We thought we could teach them the technology; but still, in terms of a success rate, if one and a half out of ten worked out, it was good.

Murphy: Well I had much worse hiring ability than anyone else has. If I got one out of ten, I'd be thrilled. I've had my worst success with hiring what I call "retrains," people in the business that worked someplace else and then were coming to work for me. They're not going to be successful with me.

I've been doing a study on this because I'm really working on this. The five most successful salespeople I've had in 26 or 27 years have been people that we have trained. Some of them have been customer service people. Some of them have had no training, no background in anything. They've been what I call "virgins," but those have been the top five. Average salespeople, I mean you could find those and get those from almost anyplace, but the real superstars…

Grad: That's an interesting point, the idea of the superstar. I've seen that at almost every one of the companies that I've worked with, there were one or two superstars. They make a lot more money than the president; and you want them to.

One of my sons is working for a company selling information technology services; and he's an incredibly good salesman, very low key, but he's very unhappy with the amount of money he's making. He doubled their business and yet they cut the percentages.

Murphy: Never cut their territory. Never change their compensation plan.

Chamberlain: It's been 12 years since I hired anybody because in 1995 we hired a general manager and he was handling all the sales, but I always struggled with it. I think I was probably at about the same rate as you guys. It's extremely difficult to find a good salesman.

Grad: You know, it's fascinating listening to you guys. You had tons of available ICs, and you felt you could match them to the jobs. You had the round pegs all the time, do you agree? And yet the life blood of the business is sales, and you couldn't find the sales people you needed.

Murphy: I think if they interview well, it's hard for us to figure out the difference between technical skills and non-technical skills.

Chamberlain: When I started the business and I was recruiting, my success rate on technical people was about 99 percent; but when we got into hiring salesman, I always wondered. Maybe I was a salesperson, and my eyes were fogged over or something.

Grad: James, how about yourself, anything?

Ross: Very truthfully, Burt, we've probably hired 30 people in the years and the best one I've got, Robbie, she came in with another person I was interviewing. We hired both of them. The one that I thought was going to do fine, didn't; and Robbie did just exceptionally well. And, literally, she's never wanted a paid for vacation. I mean I will do anything for this woman, anything. It doesn't make any difference. I will do it.

Grad: David, how about you?

Hicks: Well, I found that when I was doing the hiring and the training - in the 1970s and 1980s and early 1990s - that my hit rate, stick rate and quality rate, was about four percent. When I delegated it to Alex Arnold, whom some of you people may know, the hit rate went way, way down.

Where did we get them from? I would say a lot of luck, but mostly people who had sold something in a service capacity. I had one guy from ADP. I had one woman who was selling banking services for Wells Fargo, or those kinds of things. I had another fellow who had been selling for another service company. My key guy right now came out of nine years of selling printing services. Can you imagine trying to do product differentiating in the printing business? And he's my current superstar. So I've had a lot less success when it was delegated to managers, as I started to take myself out of the day-to-day business.

Grad: But all of you are saying - except for what David said here - that no matter how good you are personally at selling and knowing your history, you weren't really successful at identifying who were going to be the really good salespeople.

Hicks: That's true for every industry that sells.

Shulman: Yes, but I just want to throw this out. What we found is that when you hired a salesperson, you usually knew in the first few months whether that person was going to be successful or not. Unfortunately, for a long time you keep saying, "Well maybe just another month -- you're almost there." But you find that the good ones, they come in and they either hit the road or they don't.

Grad: Steve has drawn a little picture up on the board.

Kenda: Just a quick thing. 1996 is when the business really started to explode. And what I remember is the salary cost for internal people was starting to rapidly outpace the amount of gross margin that they were capable of generating. These people were flipping jobs every six months. I had people with six months of recruiting experience that were getting job offers of $70 per hour for contract recruiting jobs. The business was so competitive as we were approaching Y2K. Everybody was trying to hire everybody else's employees. Headhunters, the mega headhunters in our industry, were headhunting in our business.

Then we got to 2000. This is where everybody swapped jobs every six months; but, as Phyliss was saying, if they were in the business, a "retread," they needed $75,000, $85,000 a year cash flow. They needed it as a guarantee coming in because they were going to generate all this business.

And, of course, in the dire days of the depression of our industry - 2001 and 2002 - their ability to produce gross margin dropped to the floor. So those people who were the retreads were extraordinarily expensive but had virtually no production. When their cash flow guarantees ended in six months, they were out the door and on to the next operation.

Grad: So now we're in 2006. What's now?

Hicks: The business is more today like it was in the 1980s and early 1990s. There isn't this razzmatazz thing that went on from 1996 through 2000. After that it's the perfect storm of Y2K work ending and the dot com/dot bomb raping of the user community, that type of thing. I feel that the selling style in the mid-range marketplace, where you have access to hiring managers, is very much like it was before.

We divide our business between what we call "wholesale" and "free range": "free range" meaning access to hiring managers; "wholesale" meaning vendor list. I don't even have a salesperson selling those kinds of things [vendor lists]. I have a recruiting staff that serves the three or four customer companies we have that do [vendor lists] because you just pump resumes down a pipe and hope that you get about five percent close rate on those vendor lists.

That's opposed to about a 35 or 40 percent close rate on free range jobs, because there you've got a salesperson with a customer relationship and a recruiter who will hop on the job the minute it comes in and produce candidates in less than 24 hours.

Ross: Another thing, too, regarding vendor lists. One of the things that we started pushing, because we started hearing about them, was what they call "specialty vendors." Okay, now a specialty vendor would be somebody that is beyond your norm. Well, that's one of the things we go after because what we are doing at this one time is trainers. That's all we do.

Personally, this has been a Godsend for us because we're small enough that we never would have survived. But we retooled at that point in time and the route we took was specializing in trainers. We are into places now that we couldn't even get into before because we're providing trainers; and we are on specialty vendors' lists.

Grad: Okay, the workshops tomorrow morning: one is on "general operations," how you ran the business; the other has to do with what market you went after, the degree of specialization and how did that change? For example, the manufacturer, were you working on minis? What did you do with the PCs coming in? How did you handle that? Were you working with languages? Did you become COBOL specialists during that period of time, and what happened?

<u>Changes in Business Practices</u>

So we're trying to look at how did you particularize your business? Some of you opened branches in other locations.

Hicks: A small number of us did.

Grad: Some of you did roll out. Because the employee-based companies, that was a major way they grew. They felt they had a cookie cutter; and they could go to any location, pretty much, and open a business and make a certain amount of money on it. Jay Goldberg said that $250,000 would build him a location in Phoenix or in Denver, but not in Buffalo because CTG was there and who would want to be in Buffalo?

Kenda: And in the early 1990s, everybody started doing it. That's when you had 300 offices opening in Atlanta.

Grad: That's the other side of it. After 1996, 1997, somewhere along there, the Y2K drove the business so that anyone could become a tremendously large business in spite of complete incompetence. Sorry, I shouldn't have said that. But, seriously, you almost couldn't do anything wrong during that period.

Nordemo: That's right.

Murphy: I was at an ADAPSO meeting; and John Keane was sitting in front of me and they were talking about bad brokers. And he was listening. And, all of a sudden, he stands up and he goes, "I've got it! They are the marketing arm of the independent contractor. That's what they do for a living." And I thought, "What year is this? Where has this man been? Why are we worried about him?"

Grad: He was the president of ADAPSO at one point, when Luanne was the director.

Kenda: He also built a lot of his business from acquisition. In 1991 he was only doing about $100 million and then he bought Geisco and ADS.

Grad: Well the models in the software product side were very much a growth model through acquisition, but in the professional services area, Larry Schoenberg grew AGS through acquisition before he sold it to NYNEX. Those were different models, but Jay Goldberg felt that he had a cookie cutter. Barry Goldsmith went wherever his clients were; he went with the Blue Cross/Blue Shield people; and wherever they had an operation, he would migrate to them and they would do the reference selling for him. That's what he said in our meeting last year. So they had growth patterns and structures of how they did it. Each one was different.

Hicks: Today you don't need to do that. We have Visa and Schwab; and we service everywhere in the United States from the Bay Area.

Grad: Yes, the location has changed. It used to be totally location dependent.

Kenda: Before cell phones and broadband at home.

Grad: Well, that's an interesting point. So you don't have to be on site to do the work anymore?

Murphy: You don't have to be in the area to do business.

Kenda: You don't have to be in the country.

Murphy: You need to be able to get there or have a branch office there.

Grad: That's an interesting point. I don't want to go far with it because it's today, not ten years ago. Do your workers now work on site with the clients?

Kenda: Contractors are still on site.

Shulman: But we used to have every consultant that we placed at a client come to our office to meet somebody. You can't do that today. They won't even come to the office. So you can service anybody from anywhere. We can't get the people who we're recruiting to come visit us or they'd have to visit every other consulting firm that called them for a job.

Grad: We'll talk tomorrow about it. There's been a dramatic change since 1995. If we had time, I'd love to cover it, but we will try and stick primarily to the pre-1995 era, as the historians tell us that's history. What have I left out from the customer relations side that you'd like to bring up and discuss?

Chamberlain: One minor point, I think. As the systems and the PCs got stronger and stronger, the customers in the early years, in the 1970s and early 1980s, were all quite flexible. If you present them a really good candidate - and maybe they didn't know that application or have exact experience, they (the customers) could look through that and say, "Hey, I can see this guy can do the job." But as we were able to have resumes online, you can search right down to the skill. I mean, they were asking, "I want a person who knows this application and this language." They became totally specific about what they expected; and they could get it and we would try to deliver it, which was kind of hard.

Hicks: It's way much more of that today than in your day. You don't even get resumes looked at unless they're 95 percent matched.

Ross: Well, yes, I would say that what Robbie is telling me mostly is that we're getting a lot of change. You're getting a lot of changeover in the hiring managers, so one of the things that you want to do is to try to establish a rapport somehow with the company itself, even if it's with a gatekeeper. So that when that manager does change, you still have an in into the location that you didn't have before.

Grad: What other topics would you have liked to have had discussed or things we should have covered? Bjorn do you have anything you want to put on the table?

Nordemo: Nothing I can come up with right now.

Smith: I can't think of anything.

Shulman: I'm done.

Grad: Steve, how about you, anything else on the marketing and sales side that we should have covered or discussed?

Kenda: I don't think we ever dealt with the clients the way I would have liked to have seen us deal with the clients. Because of the nature of the competition and because the low barriers to entry and the fact that there were enough of us when Fidelity came to Boston, as I said, I remember at the meeting saying, "Why are we doing this? This is like we're lambs being led to the slaughter. I'm leaving. Is anybody with me?"

And, of course, everyone is sitting there saying, "Okay, we're going to get Kenda's Fidelity business because he's no longer going to bid on this." And instead of everyone getting up in the room and telling Fidelity, "No, this isn't the way it's going to work. You're going to continue to work with us at the margins that we need," it was, "Well, all right, we'll take the low hanging fruit; and if Fidelity tells us to eat a lower margin, we'll do it." You never get anyone to change that mindset.

Grad: So the point you've always said is that, as of now, the margins are smaller?

Kenda: When I was running the association in 1992, one of the first things I wanted to do was create leverage for the association by squeezing Computerworld, because Computerworld was jacking up the rates. Everybody used Computerworld.

Grad: These are advertising rates?

Kenda: Yes. Anyway, again for us as a collective, there were things we were doing collectively in New England that I was trying to get the national to do and, of course, so bring it to the national level. Everyone commits in January of 1992. We were all boycotting our Computerworld advertising except for one guy in my own backyard, and he cut me off at the knees. He ran the ad because he was opening two or three offices.

Everybody else saw it and said, "Steve, we can't carry on with the boycott because this guy, he's getting all the candidates that we advertise." So every time you try to do something where you get any kind of leverage with a client, with the contractors, with people we're selling to, we would slit our own throats.

Hicks: One of the things that has always troubled me a little bit is that companies have never completely valued the intellectual capital that they have, including our own companies. I'm talking about companies. You can't capitalize employment. It's an expense. And most hiring managers, even the people above them, it isn't their favorite thing to do, hiring people, no matter what kind of a person it is. So they look at what we do with a little bit of a jaundiced eye. We're brokers and they're not. And it takes a good deal of effort to persuade people away from that, and you never actually get it completely done.

No matter how much of a friendship I've had with the guys that I used to make a lot of placements with in the past, I still see a few of them and still talk to a few of them, I was the guy who provided the placement services as opposed to the guy from Orville who sold the beautiful piece of software that took them to the next technology level and so forth and so on. So it's a view that I don't think is ever going to really change, but I get to laugh all the way to the bank.

Murphy: Yes, but don't you also think though that after, and I'm not sure exactly what year it started, but that the buyers or the companies started getting together and comparing notes. And you would see waves or trends coming through where they would all go to some kind of conference or meeting or something, and someone would say, "What we're doing with our vendors is this." And then you'd have to go and figure out some new thing.

Ross: Well, my thing was when procurement took it over as compared to the hiring managers. And what we found in the Midwest quite a bit is that procurement was the one who was driving everything, and procurement's only concept was, "How low could you go?" I mean they didn't care. Very truthfully, I've gotten many hiring managers tell me, when I was even out there recruiting, that it didn't do them any good to go down to procurement because procurement would not send them what they needed to get the jobs done. There were many instances where jobs were not getting done because the people that procurement was providing were worthless to them.

Grad: It is now ten after 5:00. We're going to draw to a close. Thank you all very much.