



# A NEW BALLGAME

## Service Provider go- to-Market Strategies Must Respond to a Dynamic Environment

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## INTRODUCTION

Today's global outsourcing market is characterized by increasingly intense competition and downward pressure on pricing. The big-ticket, long-term 'mega deal' that was once a staple is now an anomaly. Client organizations have a larger pool of viable service providers to select from, scope is narrower and deal sizes are trending smaller over the long term. A service provider awarded a contract is often one of many organizations in a multi-vendor delivery mix, and is encouraged to integrate with competitors or risk losing their existing footprint.

This evolution presents opportunities and challenges for both buyers and providers. Clients have a wider variety of options and can leverage specialist capabilities, but risk choosing the wrong vendor or missing out on a rising star. Service providers, meanwhile, have access to new deal opportunities, but must guard against spreading themselves too thin by chasing too many deals, and face the task of articulating their value proposition in an increasingly crowded and noisy space.

This ISG white paper examines key trends in the outsourcing marketplace and their impact on service provider go-to-market strategies.

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## MARKET TRENDS

ISG research reveals a long-term move towards higher deal volumes and lower contract values, a trend that reflects a fundamental change in the marketplace. One key driver is a general decline in the number of large-scale relationships with annual contract value (ACV) of \$100 million or more. Another integral factor is a growing propensity among enterprises to convert long-term deals with a single supplier into shorter-term contracts with multiple providers.

Higher volumes of smaller and shorter deals also reflect market maturity and the growth of multi-sourcing, as clients become increasingly comfortable with engaging best-of-breed suppliers and managing multiple relationships. While the potential benefits are significant, multi-sourcing also poses some challenges; specifically, how to ensure collaboration among a disparate team of providers. Indeed, service providers that can demonstrate the ability to collaborate as part of a team often gain an important competitive edge. (See the [ISG white paper](#), "Play Nice: Facilitating Collaboration in a Multi-sourced Environment").

The nature of demand for sourcing services is shifting as well. Rather than being used solely as a tool to exploit rapid cost-savings potential, sourcing is increasingly applied for strategic advantage as enterprises begin to move into post-recessionary growth modes.

Another emerging sea change: Profit margins, rather than revenues, are becoming the new benchmark for service provider success. This trend reflects increased market maturity, client/provider collaboration and acceptance of standard service delivery and automation-driven solutions. Providers that embrace these developments and work with their clients to continually drive down operating costs will emerge as the winners. (See the related article, "In 2014, Profit Margin Will Trump Deal Size," [Global Services](#), January 2014).

## SUCCESS IMPERATIVES

What do these fundamental changes mean for how service providers develop and implement their go-to-market strategies?

For one thing, prioritization of deal pursuits is more important than ever. With an ever-growing number of potential opportunities to go after, providers risk chasing too many deals (and chasing none of them effectively) and spreading themselves too thin. Successful providers understand their true market differentiation and focus on the opportunities that best align with their sweet spot and a client's specific needs.

Another key is to involve subject matter experts and key delivery leads early in the sales process to establish credibility and demonstrate capabilities. The challenge, of course, is that the "A team" invariably has limited bandwidth. As a result, providers often tend to exclude their SMEs and delivery leads from early discussions, with the expectation that they can be brought in at the end of the sales process to close the deal. By that time, however, it's often too late, as the second-tier sales team has failed to identify client issues or establish credibility.

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Effective go-to-market strategies ensure that the contribution of experts is maximized throughout the sales cycle. Clearly defined processes around pursuit and proposal development allow providers to fully leverage their knowledge and capabilities.

## THE SMAC FACTOR

Not that long ago, the mainstream service provider community viewed emerging technology players with a mixture of dread and denial – dread that the “disruptive” technologies of Social, Mobile, Analytics and Cloud (SMAC) would destroy existing business models and revenue streams, and denial that these forces would enter the mainstream any time soon.

Today, of course, the outsourcing market – either happily or grudgingly – has acknowledged that disruptive expertise is not only mainstream, but is rapidly becoming table stakes in terms of an ability to compete effectively. In addition to aggressively touting their SMAC capabilities, providers are proactively embracing labor automation, and reassuring analysts that business models built on labor arbitrage will successfully adapt to the age of smart machines.

The increasing integration of SMAC into service model options exacerbates the trend toward vendor specialization and further whets client appetite for innovative niche solutions. From a competitive standpoint, more than ever the onus is on providers to articulate their value proposition and stake out their market positioning. The ability to communicate credible success stories is especially important, for while clients are interested in innovation they balk at being test cases for unproven solutions.

## DIFFERENTIATION

In today's environment, perhaps the single most fundamental challenge service providers face is differentiating their offerings and standing out in a crowded and noisy marketplace.

Building strong relationships within client organizations is key to effective differentiation, as it allows a provider to understand the client's perspective and speak to it. Without that understanding, providers tend to push their capabilities from their own point of view, forcing the client to adapt to the provider's perspective; a failure to connect typically results. A relationship with the buyer also gives a provider insight into the real organizational and individual agendas driving an outsourcing initiative. By addressing these nuances, the provider is better positioned to engage the buyer.

Good relationships also enhance effective communication – another imperative of differentiation. As advisors, ISG often sees service providers take a generic approach to sales pursuits – delivering a core dump of information to a potential client and expecting them to sift through reams of information to synthesize something relevant and meaningful to their problem. Effective responses are concise and clearly written and grab the client's attention by addressing the client's specific needs and demonstrating that homework has been done.

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In developing a strategy of differentiation, service providers should also work to understand and influence how they are perceived within the marketplace. Existing reputations may or not be deserved, and may or may not represent the current reality. Regardless, the reality is that clients have their perceptions and are influenced by established reputations. Successful providers address their reputations proactively. They use the positives to their benefit, and work to correct false or negative perceptions – rather than pretending they don't exist.

Today's outsourcing market continues down a path of increasingly intense competition and increasing fragmentation of the service delivery chain. While new opportunities are emerging, providers face the challenge of identifying which opportunities they are best suited for, and of developing and implementing effective go-to-market strategies to pursue those segments.

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## ABOUT THE AUTHOR

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