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3 Reasons Why Growth of Your Technology Services Startup Is Slow

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ABSTRACT

Starting an IT consulting or professional services company can be a challenging but rewarding experience. However, many startups in this industry make common mistakes that prevent them from achieving sustained growth. In this whitepaper, we'll discuss three common mistakes that IT consulting and professional services startups make that prevent growth, along with real-world examples.

1. Introduction

As the technology landscape continues to evolve, IT services companies are faced with new challenges in their quest to scale their businesses. Despite the best efforts of entrepreneurs and business leaders, many companies struggle to grow their operations and reach the next level of success. There are a number of factors that contribute to this issue, but in this white paper, we will focus on three that we find most significant: lack of positioning, lack of planning, and lack of marketing effort.

One of the biggest reasons that IT services businesses do not scale is a lack of clear positioning. Without a well-defined target market and value proposition, it can be difficult for companies to differentiate themselves from the competition and attract the right customers. This lack of positioning also makes it challenging for companies to build a strong brand and establish their reputation in a constantly growing and evolving market.

Another reason that IT services businesses struggle to scale is a lack of planning. Without a clear strategy and plan in place, companies are often unable to effectively allocate resources, prioritize initiatives, and execute on their growth objectives. This can result in wasted time and resources, missed opportunities, and a failure to achieve desired outcomes.

Finally, a lack of marketing effort can also be a significant barrier to scaling IT services businesses. Without a strong marketing presence, companies are often unable to generate the awareness, leads, and sales they need to grow their operations. This can result in missed opportunities, a failure to reach target customers, and a lack of progress in the marketplace.

The challenges that IT services companies face in their quest to scale can be significant, but by addressing the three key issues, companies can overcome these barriers and achieve their growth objectives.

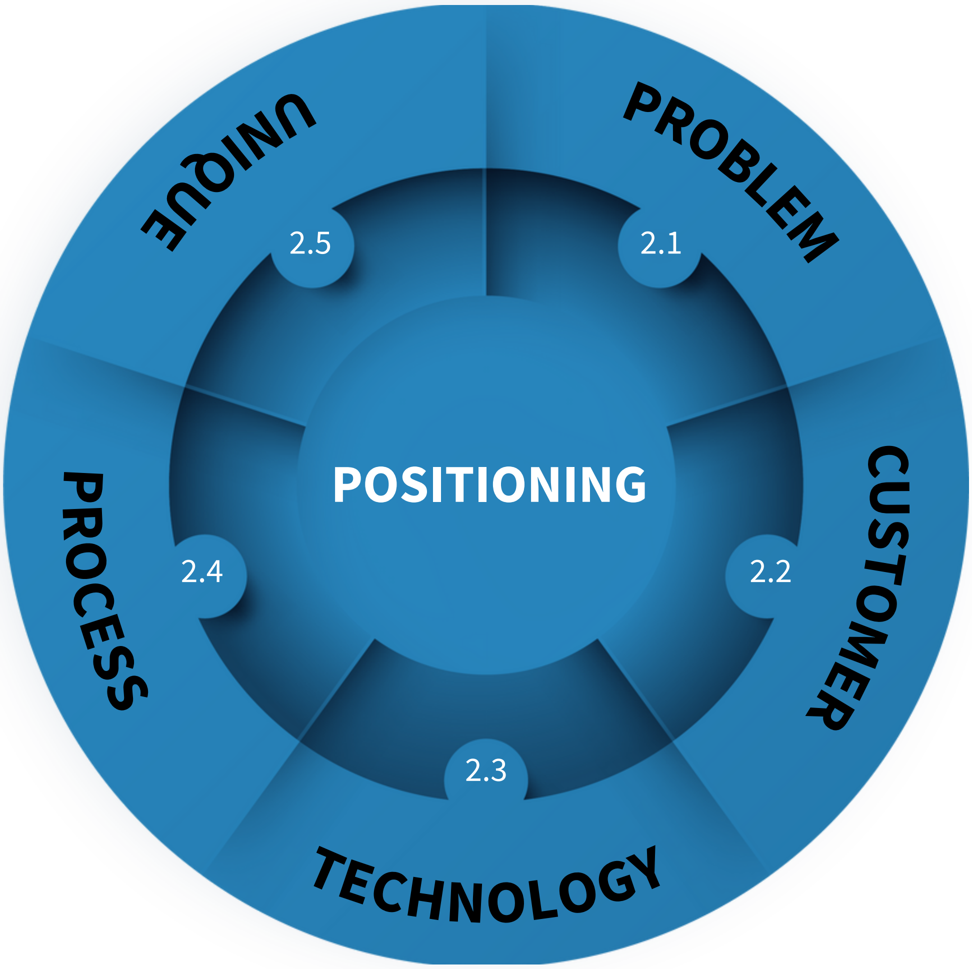
Sections 2, 3, and 4 of this whitepaper address these three challenges one by one.

2. Positioning

> Positioning is the pivotal act of clarifying the problem(s) your consultancy is solving for a specific audience and how your approach is achieving that
>
> David Baker

Lack of positioning is one of the primary reasons why IT Services businesses struggle to scale [1, 2, 3]. Without a clear understanding of what makes them different, IT Services startups often find themselves competing on price and losing to larger, more established competitors.

Positioning is the process of creating a clear, distinctive image in the minds of your target customers. It is about defining your business in a way that sets you apart from your competitors and makes it easier for your customers to understand the value you bring to the table. In our experience, there are five key elements to positioning a technology services firm: problem, customer, technology, process, and unique



2.1 Problem:
Defining the Problem You Solve

The first step in positioning is to clearly define the problem you are solving. This means understanding the pain points and challenges your customers are facing and how your services can help alleviate those issues. To be successful, your problem definition should be specific, relevant, and compelling to your target audience.

2.2 Customer:
Identifying Your Target Customer

Once you have defined the problem, the next step is to identify your target customer. This means understanding who your ideal customer is, what they need, and what they value. You should focus on a specific segment of the market and tailor your services to meet their unique needs and challenges.

2.3 Technology:
Leveraging the Right Technologies

Technology is a critical component of positioning in the IT services industry. While you want to be selling solutions the truth is that a lot of buying in IT happens on the basis of technology and skills needed. To align yourself with what your customers are buying you will need to have a well-defined technology focus backed by appropriate strong partner relationships with mutual referrals. It is important to identify the technologies that are most relevant to your target customers and to invest in developing expertise in those areas.

2.4 Process:
Developing a Proven Process

In addition to technology, customers will also expect you to have a proven process for delivering your services. This means having a structured, repeatable approach to solving problems and delivering results. Your process should be streamlined, efficient, and able to scale as your business grows.

2.5 Unique:
Differentiating Yourself from Competitors

Finally, to be successful, you need to differentiate yourself from your competitors. This means finding ways to set yourself apart and to offer something unique that your customers cannot find anywhere else. Whether it is your expertise, your approach, or your technology, you need to have a clear and compelling value proposition that sets you apart from the rest.

Example.

An example of a company that successfully differentiated themselves through positioning is our previous startup, Flux7, an IT services company that specialized in DevOps and Containers on AWS. By focusing on a specific niche, Flux7 was able to establish themselves as experts in their field and differentiate themselves from more general IT services providers. This helped them attract enterprise-level customers and win deals that larger, more established competitors were unable to win. Eventually, this focus led to the exit of the company.

There is a clear difference between a business that has positioned itself properly versus one that has not. Figure below shows some of the symptoms of bad versus good positioning.

Impact of No or bad positioning:	Impact of Good positioning and its proper use:
1 Marketing produces inconsistent results	1 Marketing provides a controllable lead flow engine
2 You chase every prospect	2 You say no to clients often
3 You try to win clients by lowering price	3 You charge 50%+ gross margins and use the extra cash to enable even better positioning
4 You keep widening the range of offers	4 Growth accelerates
5 Growth slow	

Therefore, a strong positioning is perhaps the single most important activity that a technology services startup must take on. But, leveraging a newly found position to scale requires some additional elements.

At Vixul, the first activity we help founders complete is to formally develop their positioning. It is a step by step process with clearly defined success criteria at each step to make this a tractable exercise.

3. Planning

> In preparing for battle I have always found that plans are useless but planning is indispensable
>
> Dwight D. Eisenhower

Eisenhower's famous quote above is very applicable in business. Another common reason that IT services businesses fail to scale is the lack of proper planning. Effective planning involves creating a revenue growth plan, setting key objectives, developing key results, identifying actionable projects, and executing on the plan with proper project management.

The plan provides a roadmap for growth and helps ensure that resources are being utilized effectively and efficiently. **A well-structured plan allows a company to prioritize initiatives, and allocate resources in a way that supports the overall growth strategy.** Additionally, it provides a framework for tracking progress and making course corrections when necessary. By having a plan in place, companies can avoid making costly mistakes and ensure that they are making the most of their opportunities. Regularly reviewing and updating the plan helps companies stay on track and adjust their strategy as needed to meet changing market conditions and customer needs.

Once the company has established its revenue growth plan, the next step is to define goals to be completed over the next year or quarter. Any framework can be used for this, but we recommend using OKRs [4] specific objectives and key results. Objectives are defined as the desired outcomes that the company wants to achieve, while key results are the measurable steps that will be taken to reach those objectives.

The use of Objectives and Key Results (OKRs) is crucial for technology services companies to ensure that they are making progress towards their revenue growth goals. OKRs provide a clear and measurable way to track progress, and they allow for flexibility in adapting to changes in the market or company strategy.

For example, a technology services company may set an objective to increase its client base by 20% in the next quarter. The key results for this objective might include generating 100 new leads, closing 10 new deals, and improving the close rate from 10% to 15%. These key results provide specific and measurable steps that the company can take to reach its objective of increasing its client base.

OKRs also help to align the efforts of different teams within the company. By defining clear objectives and key results, everyone in the company can understand what their role is in achieving the overall revenue growth goals of the company. This helps to ensure that everyone is working towards the same end goal, and it eliminates confusion or misunderstandings about the company's priorities.

At Vixul, we take a very systematic approach in developing a plan and also coaching founders on how to biome data-drive and be good at planning. Here are the steps we suggest:

Revenue Growth Plan: Develop a timeline of expected revenue growth over time. This will give a clear picture of the company's key objectives and what they want to achieve in any given time period.

Objectives: Based on the revenue growth plan, determine the key objectives the company wants to achieve in a given quarter and year.

Key Results: Put in place measurements to track progress towards achieving the objectives. Some of these measurements can directly come from RGM. This will help the company understand what is working and what needs to be improved.

Actionable Projects: Based on the key results, make a plan consisting of actionable activities and projects that you expect, that if executed correctly, will give the key results. Each activity or project should have clear outputs and timelines.

Execution: Proper project management is crucial to executing the plan. It's important to hold everyone accountable, keep the team motivated, and stay focused on the end goal.

Example.

A cloud and DevOps consulting company was showing healthy growth and financials, but they lacked a clear understanding of how they would continue to grow the business. We cannot disclose the company name for confidentiality, so we will call them AlphaCloud. Their vague targets, such as reaching 1,000 employees, left them without a concrete plan to achieve their goals.

First, AlphaCloud developed a Revenue Growth Model (RGM), which detailed their quarter-by-quarter revenue growth aspirations and the changes that would need to occur to hit each goal. This involved two types of changes: delivery-side planning (headcount, utilization, and hourly rate targets) and client-side planning (number of new clients, average deal size, and new lead targets). The model was then vetted through several rule checks to ensure its feasibility. It was also confirmed by three seasoned CEOs for a sanity check.

With the RGM in place, AlphaCloud was able to focus their resources where they were most needed. They stopped hiring engineers and instead hired Sales Development Representatives, and customer success managers. They started with launching marketing campaigns that produced new leads and enabling them to hit their utilization target. The results were remarkable: in just six months, revenue grew by 60%, clients were paying 20% more for the same services, and the business was more profitable.

Now, with a clear plan in place, AlphaCloud can continue to increase headcount with more clarity and purpose. The team at the company reports feeling more relaxed and focused, and the founder no longer changes her mind daily, allowing the team to get things done. This is a great example of how proper planning can lead to the success and growth of an IT services business.

It is also important to keep in mind that plans are not set in stone. As you learn more about your business and market, your plans should be modified and updated to reflect new insights and developments. This ongoing process of refinement and adaptation is essential for continued success and growth.

4. Lack of Marketing Effort

> 38% of agencies say referrals are the most effective way of picking up new clients. Yet fewer than half have a strategy in place to increase the volume of those referrals
>
> Ben Potter

While Ben Potter said the above about marketing agencies, it is quite applicable to Technology Services as well. **Most technology services companies complain that they need more leads.** If you ask them what they are doing to get more leads, what you get is a long-winded description of everything they did that is not a systematic plan. More importantly, if you ask the CEO how much time they spent on getting more leads, the answer is just a few hours per week. If this is your most important problem, why isn't it your top priority?

The answer, we have discovered, lies in the way services companies start. They start off by focusing on relationship-based sales and try to ask friends and network for referrals. This is a great way to start but only works in the short term. As the network starts to saturate, and leads slow down, the companies drop into a downward spiral.

The downward spiral: Companies often do not realize where the problem is and instead ask their network for leads even harder than before. The result is a tired network and even fewer leads.

To overcome this lead shortage, these companies broaden their portfolio of services in the hopes that they will get more leads. As research has shown [3], this works against them and further reduces the number of leads. They also broaden their portfolio of services to attract more clients, but, as numerous experts and research studies show, companies with bigger portfolios have an even harder time finding referrals [3, 5].

Faced with a shortage of leads, the company becomes more desperate to close every lead it gets. This leads to three problems. First, the effort to win misfit deals is high and often fails. Second, trying to win misfit deals often requires them to de-focus from their positioning which makes lead generation even harder. Third, they start discounting services to close more businesses which reduces the cash available to do lead generation. All combined, the desperation keeps increasing while the problem keeps getting worse. Growth just comes from existing clients giving clients all the power in those relationships. And, the vicious cycle begins.

Creating the upward spiral: The right approach is to solve the root issue. Focus on increasing the opportunities that exist in the market. Generating more leads than you have capacity puts you in a position of power, allowing you to select customers that match your positioning and are likely to have great outcomes. It also gives you the power to set prices. As you work with similar customers repeatedly, your reputation precedes you, reducing the cost of sales and delivery. This, in turn, increases your expertise and leads to even happier customers, ultimately resulting in an increase in referrals, and faster and cheaper sales. The exact operating cash from the increased pricing allows you to invest even more in lead generation, which in turn enables even faster scaling. The upward spiral then continues.

> “Marketing is earning visibility and trust for your service offerings … Visibility is being seen by your market”
>
> Philip Morgan

As the quote from Philip states, the first part of marketing is getting seen by your buyers. Thanks to positioning, you know who the buyers are and what problems they have. Your job is now to let the buyers know about your offering so that they can contact you when they are ready. Before you make any plans on how to reach your buyers, there is a necessary step. Fix your website and LinkedIn page, right now! Although this particular topic is rather tactical, it is so important that we suggest you do this before anything else. Invest the time to make your website accurate and up to date. It does not have to be pretty. The same applies to your social media profiles. Anything you are not using, remove it. Customers today check out your digital presence before anything else so make it good.

Back to strategic action. In addition to positioning and planning, successful marketing requires three more ingredients:

01. Plan:

Write down a clear and concise marketing strategy that outlines the goals and objectives, target audience, budget allocation, and the channels and tactics to be used. This will provide a roadmap for the marketing team to follow and measure success.

02. Content:

Create valuable and relevant content that will educate and engage your target audience. This can be in the form of blog posts, videos, whitepapers, infographics, and other formats. The content should align with your positioning and be optimized for search engines.

03. Analytics:

Use data and analytics to measure the effectiveness of your marketing efforts. This will enable you to make data-driven decisions, adjust your strategy as needed, and continuously improve your marketing outcomes. Track key metrics such as website traffic, lead generation, conversion rates, and customer engagement. Companies measure more, win more [6].

With the right plan, good content, and data-driven execution, the visibility of a services company to the target audience can be increased in a period of just a few months.

Example.

In our previous startup, Flux7, nearly 50% of our leads over our lifetime came from the help of marketing. WE invested in marketing out of necessity because we started the business with no relevant personal network. We had come from a different industry than we were entering and hardly knew anybody. Our only hope to find leads was marketing. But, we spent no money on marketing in the first two years. Inteased, we learned to do it ourselves. Back in c2013, this consisted of writing a blog a day for SEO, participating in StackOverlow discussions, attending local meetup groups, and securing speaking slots at small and medium sized conferences. We also advertised our services on oDesk (now UpWork). None of this cost us anything and we did not hire anyone to help us either. Just using these cheap methods kept us afloat for the first two years (our best years in terms of growth) and provided the scaffolding to hire more help and grow from there.

At Vixul, we spend a significant amount of time talking about raising visibility about your startup and your services. The exact tactics change based on scenario and best practices also continue to evolve, but we preach that the focus on creating leads has to be a top priority for any founder of an early-stage Technology Services startup.

5. Conclusion

In conclusion, the lack of positioning, planning, and marketing effort are the three main reasons why IT services businesses fail to scale. Positioning provides clarity on the problem, customer, technology, process, and unique value proposition, and without this, it's challenging to build an effective marketing strategy. Planning ensures that the company has a roadmap for growth and the key results to measure success. Marketing is crucial for lead generation and building a brand reputation, and without it, the company is more likely to fall into the vicious cycle of discounting and shrinking operating margins.

At Vixul, we understand the challenges that IT services businesses face and have created a bootcamp, the Vixul Accelerator, to tackle these issues head-on. Our accelerator program not only focuses on the business aspects but also spends time on the people aspect. By helping businesses develop their positioning, planning, and marketing efforts, we aim to give them the foundation they need to scale and grow successfully. So, if you're an IT services business struggling to scale, consider joining the Vixul Accelerator and let us help you build a strong foundation for growth.

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