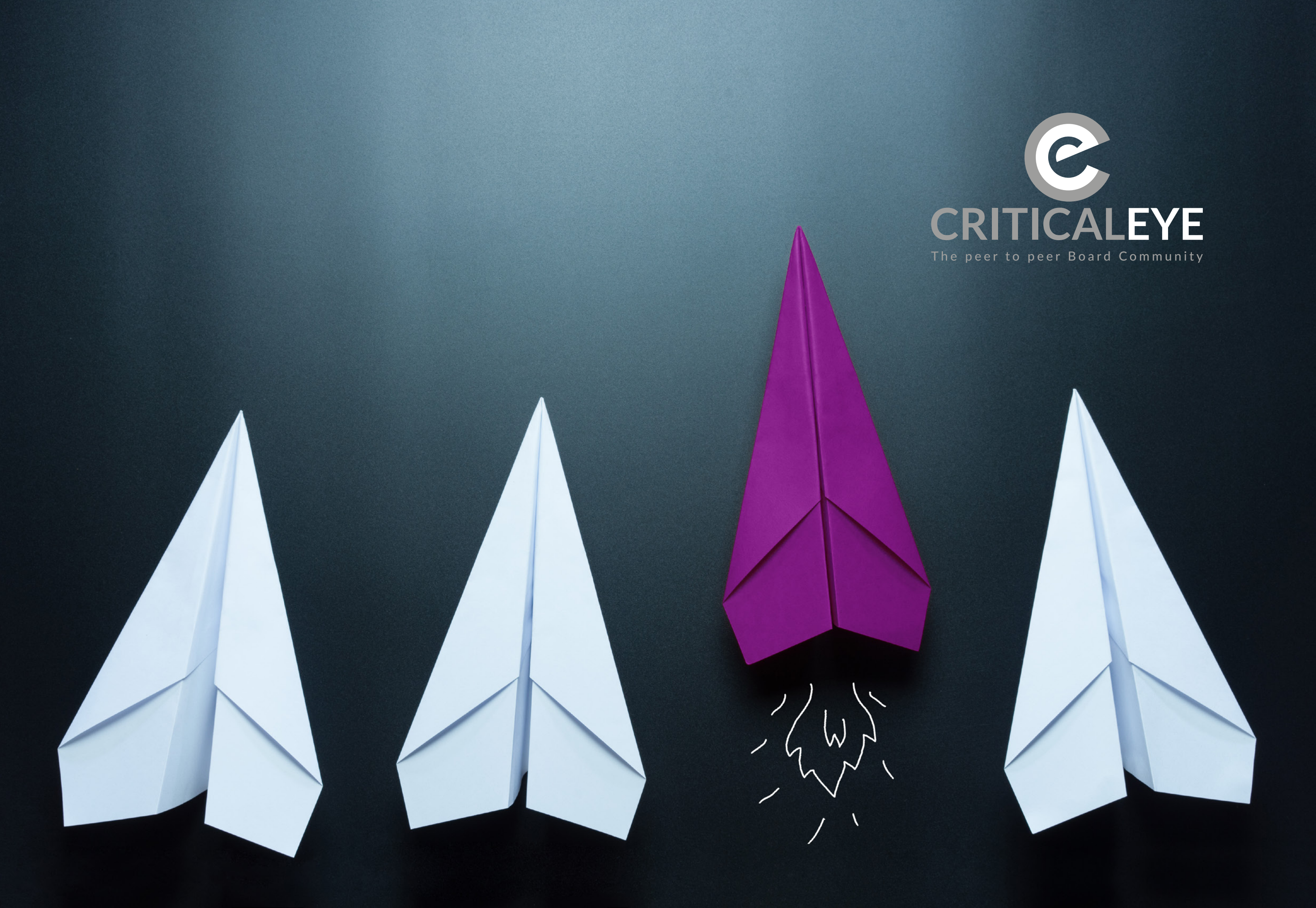

How to Win Profitable Business

Investing in good commercial management will help to win profitable contracts and make a business more attractive to potential investors or provide greater returns to shareholders, writes **Lina Brown**, Group Commercial & Legal Director at Equiniti

Winning new business is tough. Clients are increasingly more demanding and yet want value for money, set against a backdrop where most B2B and public services organisations are competing for new contracts. Typically, they submit commercial proposals that clients evaluate against the competition.

Internally, executives have to make a large number of business decisions related to commercial bidding. Once the commercial team has priced a deal, it would be challenged and evaluated before the approval to submit is granted. In the companies where I've worked, the process of pricing and evaluating a deal can be very sophisticated, often requiring in-depth financial acumen from commercial teams as well as reviewers.

Here are five challenges we have all faced in this area and some thoughts on how to overcome them:

Cash is King

All businesses must grow, so winning a big contract is fantastic news. Often, executives are incentivised on revenue growth. Bid teams are expensive and on more complex, high value bids, it is not unusual to spend millions in pursuit of an opportunity.

Worryingly, in my experience many decision-makers tend to forget that the true measure of commercial return is >

cash. If the contract requires a significant upfront investment, one should assess the project by using investment metrics: net cash delivered by the contract; net present value (NPV); internal rate of return (IRR); and payback period.

Even if a contract is profitable, I would not recommend bidding if it delivers a low IRR and a long payback period. More often than not, the business can find a more attractive use for capital. My discussions with sales leads, who bring for approval deals with high capex requirements and long payback periods, are normally around possible mitigating actions: can the client fund the implementation? Can payment terms be shortened? Are there any business opportunities that can be opened up as a result of this contract, for instance, if there is an investment in technology?

Unless there is a tangible strategic business case, my advice is to withhold the bid approval as the contract is unlikely to deliver a return for the company's shareholders. For contracts with an acceptable IRR but high capex requirements, I would recommend running 'stress-test scenarios': if the implementation is delayed, or if the efficiency savings are not achieved in the anticipated timelines, does the contract still deliver acceptable returns? If the answer is unsatisfactory, then I would consider if approval should be granted and, at the very least, I would ask the pursuit team to develop a risk mitigation plan, to ensure the contract remains on track.

What Determines the Price?

At one of the companies where I worked, the Commercial Manager, who I met as part of my onboarding, advised that the

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commercial team does 'the costings'. Surprised, I asked about the approach to revenue and was informed that the Managing Director decides on the mark-up that is added to the cost to give the revenue number.

Unconvinced by this approach, I worked with my commercial team to change it: we started holding 'the price to win meetings' early on in the bid lifecycle, to determine the sell price that the client would be willing to pay. Once a solution is developed and costed, the challenge is whether or not it delivers sufficient profit at the price that was set at the 'price to win' meeting, or alternatively, if the solution should be reviewed to find efficiencies.

If the solution team has done its best, but the numbers still don't work, then the obvious question is whether one should submit the bid. Miracles happen, and the client might still like the proposal enough to award the contract at a higher price point, but miracles are rare and, of course, it is not a repeatable business model. I recommend tasking the team with finding a solution that works within the target price for the business.

I think it is important to challenge the pursuit team as to why they are recommending a particular price point. As a matter of good practice, the pricing team should maintain a database of pricing benchmarks, relative to key contract parameters.

It will help to enhance the competitiveness of the commercial proposition and increase the probability of winning.

Is the Contract Deliverable?

In one of the companies where I worked previously, my task was not to win but to exit some contracts. As an extreme example, the solution sold to two clients was to supply technology that had not yet been delivered. To make things worse, this business had been sold to a third party who was then engaged to develop this technology on time – needless to say, they were laughing all the way to the bank whilst I was looking at a report showing £20 million cost to complete two contracts giving total revenue of £10 million.

Fundamentally, decision-makers need to challenge bid teams more. All too often, proposals are signed off that meet a client's requirements on paper but bear little or no resemblance to what can actually be delivered – profitably – in real life.

I have interviewed a former colleague, David Selvaratnam who used to be a Commercial Director like me and now >

runs a multi-million, 21-year emergency services fleet contract in a FTSE 250 outsourcing company. David was the commercial lead who has secured the contract and then became responsible for service delivery.

I asked David whether he would approach any areas of the bid differently, if he did it again, armed with his operational experience. David comments that a significant risk for this long-term service contract, not recognised at the bid stage, is skills shortage: the contract personnel, such as vehicle technicians, are ageing and difficult to replace. Younger people appear to prefer careers in IT, media and sciences, rather than more traditional engineering and technical occupations. David is building relationships with apprenticeship organisations and colleges and wishes he had thought about it at the bid stage.

The other recommendation from David is for executives to have in-depth solution reviews at bid stage, facilitated by independent experts.

Know Your Stuff (I mean really know!)

This challenge is common for every single bid.

Your bid teams have studied all of the information made available by the client or, if this is an acquisition, pored over every shred of data in the data room. They would have produced a commercial model that shows the profitability of a potential contract or prepared a business plan for the acquired business. Great, we can now relax and approve the bid submission or the financial offer for the target business – correct? Well, yes, but I would ask a few questions.

Ask the bid lead to describe key cost and revenue drivers. Can they show how the cost base would change over time, what efficiency assumptions are made, how these would be delivered and what would be the investment required to implement these? This piece is normally well covered and the team will likely impress with their knowledge.

Now let's ask how changes to key contract parameters would affect the cost base. Hopefully, the team would take you through a few scenarios explaining sensitivity to volume changes, delays to the programme or efficiency savings.

One lesson I have learned is: beware of the volume forecasts provided by the client. You expect the contract to have a double-digit growth and price accordingly… only to find out that the actual volumes are half that and the contract is not making money.

Finally, it may be worthwhile checking if the team has benchmarked key cost categories. For technology, how much does it cost to maintain and is this in line with the industry? Are third-party supplier charges reasonable or excessive? Does the number of staff seem excessive for the work performed? Are key staff salaries in line with the market?

It's All about People

In my experience, relationships and pre-engagement with the client accounts for more than 50 percent of success. Of course, one should still submit a proposal to a cold prospect and hope that its quality would get the team a foot in the door, but one really needs champions in the client organisation.

My former colleague David reflects on the need for an evaluation of the leadership team in your own organisation. Look at the performance indicators of their work – for example, for the Head of Customer Service, examine whether customer complaints are resolved within target time; for a Sales Director, review recent wins and losses; for the Head of Technology, enquire as to whether there are technology product maps, capex plans and so on.

In addition to this, I would suggest reviewing employee engagement statistics and assess the diversity of leadership teams.

It all helps to gain an understanding of the culture within an organisation, improve the effectiveness of leadership and create the framework for decision-making. ■

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