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The science of selling

K Bharat Kumar

Polaris shares with eWorld the nitty-gritty of successful relationship making with the customer.

In building a relationship, (you communicate) how good your testing practices are, how good your intellectual properties are, why this accelerated build is so much better than building from ground up, and all that.

Since Arup Gupta came to Polaris as Chief Operating Officer (COO), from TCS (where he was President, North America), in October 2005, Polaris has seen some good days. Both clients and investors seem better inclined towards the company now than they were earlier. Gupta spent some time with us early last quarter to explain what had changed. Excerpts:

Your Chairman, Arun Jain, has said that you have made a huge difference since you came on board. What, in your view, has been your greatest value addition?

Let me give you my background first. As you know, I did my masters from the Indian Institute of Science in Bangalore, then spent 26 years or so with TCS, so it was a very good mix of delivery and sales.

For example, between 89-92, I was in California as a regional manager in the sales role, then between 92-99 I literally started the global sales operation, built in the entire delivery centre, the GE relationship and all of that, 99-2005, I was President of the North American region.

It was a good mix of delivery and sales, along with the experience of setting up a fairly large sales organisation and see the operation grow from a couple of million dollars to a couple of billion dollars when I left.

As head of the operation, a good mix of delivery and sales in one person is a very crucial function. If that person is only good at sales or only good at delivery, then that becomes a little bit lop-sided.

Given that background, Arun and I articulated as to what the offering mix should be. It is also based on the recommendation from McKinsey, the fact that we have a hybrid model.

We looked at the solutions space and the technology space and went about setting up the sales structure in each of the geographies. Because of the history the company went through, obviously (there were) some difficult times in the sales cycle. At times, some commitments made to the customer were difficult to live up to, etc.

Delivery support was required, so that had to be streamlined. A lot of those things have started falling in place and that's the result that you are seeing.

The sales organisation now is fairly streamlined. We will continue to invest in sales and marketing because the sales for the products, or the solutions or domain will require people in whom technology and domain expertise would converge.

You can have a flair for sales or whatever, but in addition to all that, he needs to understand retail banking, he needs to understand wealth management, otherwise you just can't go to an investment bank and talk about wealth management and all these things.

So those investments are in hiring some of the right people. Recently we hired someone as head of our retail banking practice, out of London.

He has done some very innovative work in that space and in the credit card space. From our analysis, we understood that in the Asia-Pacific, it is predominantly going to be solutions and not too much of services, whereas in the US it will be predominantly services and some solutions and in India, we will be half way there and therefore possibly we structure the sales to be what the market is. We are a slightly late starter and given that we are not big either, we have to do something to compensate for that, that's the challenge we are going through, but what's life without challenges... ?

The three quarters ending March have been exceptionally good for youHow different is your model likely to be from your competitors?

Without the hybrid model we will cease to exist. If we go with pure services, what is going to be our unique difference? TCS, Wipro, Infosys, Satyam, Cognizant, even new entrants such as HCL are all there. The client's query would be: you don't have the scale, having hardly 9,000 people. So what exactly do you bring to the table?

For pure product vendors too, there is intense competition. So the hybrid model was required just for us to address the right entry point with the right customers.

So what we are saying is, we are not a core banking provider, Everybody has a core. I also have a core-banking solution, but that's not what I want to bring to you.

What I want to bring to you, let's say as a liquidity solution... Everybody has a liquidity solution but possibly not as robust, as functional as mine, where there is a lot of learning from our working with Citi, and large customers that the Citibank handles.

For example, take this bank in Spain, one of the top six largest banks in the world. They are very big in retail, and they wanted to get into corporate banking, Eighty five per cent of the revenue today comes from retail and they want to get into corporate banking. We put together a case study, from all the possible available information that told them, you can be in one of the three spaces and so on.

So, we can give you our experience and our product. Also, because of our service-oriented architecture, you don't have to throw away your older solution. Ours can sit with that.

My message is: My solution allows me to enter a client and gives me good margin. Then, I bring in my service. Once I've entered, other customers know Polaris, customers have seen Polaris people, then they would ask why should I look at a competitor for services. Polaris has now built a relationship.

There are a whole lot of other players who can easily get these kinds of solutions in the market. How do you manage that as you ramp up? You have a challenge facing services, and you also have a challenge of others nibbling at your pie.

I have a challenge today in basically getting into the space where already the tier 1 vendors are there. Other small players face similar challenges entering the space where I am currently present. For example, one of the largest banks in the UAE is going to roll out my retail core banking solution. One of the disadvantages I had was I did (not) have enough references. Now, I do. I have reference sites even for services, a few accounts where I have 150-200 people and all that.

But, for other small players to adopt the same strategy as mine is going to be that much more difficult for them. It's as good as going to TCS and saying Polaris is nibbling away. They are not going to sit quiet there. They are going to expand.

If you make an entry into a client, you enter because of the unique selling proposition. Where is the opportunity to expand? If they are currently happy with a tier I vendor for services other than what is unique to you, why would they come to you?

The first difficulty in the entry barrier is the first contact. Entry barrier is only two-fold, acquiring the customer which is very strong investment, because you need to go through a USP, differentiation and all that stuff, you cannot go through the sales one-on-one.

Second, you create the entry barrier through relationship, because, people do business with people. If a customer is comfortable with TCS, you just can't go up and say you'd offer the same SAP services to that customer, right?

So the entry barrier is acquiring the customer, where they ask 300 questions that one has to answer, first should I work with Polaris, what do you bring to the table, you don't have the right scale, you don't have the right people... , all that has to be answered. Second, you build a relationship.

That's where you basically have the entire accounts management structure mapping to all possible levels. The relationship is the standard sales on the line that I have done, you build such a strong relationship, as Infosys does.

In building a relationship, (you communicate) how good your testing practices are, how good your intellectual properties are, why this accelerated build is so much better than building from ground up, and all that. They continuously listen to your story and they start believing in it and

in short that's called relationship and then somebody comes and he has to answer all those questions, and the customer says no, that is not done.

But after the relationship is built, how does the quality of the conversation change? I work with TCS and Polaris comes up. I have a good relationship with both of them. All I do is go back to TCS and ask them, "This is what Polaris can do, why can't you?" What do you do differently to gain that entry?

The strategy we adopted was: no management, no interaction, just talk to our people there. There, they found a lot of deep domain expertise, people talking their language, investment banking, equities, derivatives, that they felt very good with.

So, they started with a few people and actually put these on the floor. Then, they felt more comfortable.

You enter with your unique selling point. In one case, we did that and started expanding into the settlement arena. An Indian biggie was present but for some reason, the client was dissatisfied with them and gave us the business.

Already existing players such as TCS, Wipro and others would probably offer those service lines to a customer. How do you break it, how does that change come?

I have got into the derivatives space. So, the first crossover is happening in the financial solutions spaces.

Once we have penetrated that, then if the manager is using 40-50-100 of Polaris people in his domain, and if he suddenly needs 10 SAP chaps, who is he going to talk to first? Yes, TCS is there in another corner, but there it's a huge organisation.

There are hundreds of different managers. If you are a manager with the client and are employing 100 Polaris people in your domain and you have all of a sudden 10 SAP needs, you are not going to go out of the way to find a TCS manager when you have a Polaris manager sitting next to you. That is a relationship.

So you cannot look at customer as one monolithic thing. Break it down.

That is what competition does. Break it down to 100 managers and try to build relationships with 10 managers who want to talk to me.

Does centralised decision-making by clients with global presence affect you?

Centralised decisions happen in large outsourcing deals, normally from the IT side. For clients we deal with, our work falls within that section's budget. They must have a specific cash liquidity solution requirement, which is not part of the outsourcing, and basically because Polaris is one of the top players in that space, we will be invited. But, it is only for that opportunity, for that section.

Now that gives me a foot in the door when I go to the purchasing department and tell them that I've provided 1-2-4 solutions, I've 50 people now.

You talked about a total of 55 customers, 13 being triple A, as at December 2006. In the cross-selling context, how much more will you be able to sell to an account after breaking in?

It's all done with very formal planning and math. We map our clients with respect to the CIO for all the different businesses, what are the type of services they offer, etc. All this is done even before we approach the account. Then, against each business line, we need to see what our selling unique story is, product or solution that's going to attract them. Or, we see if we have the services or domain story to present to them. Then it's just a question of making the pitch.

Now, if I have already sold a lending solution, I will say, look I already have a retail banking solution, have a world management solution. If nothing else, we have the generic offering of software testing, where we have one of the best offerings in the industry.

What is the target you would set for the Intellect solution? After two quarters, margins have taken a slight dip, despite the fact that Intellect business has gone up in the December quarter.

The reason we took a dip is because we continue to invest in sales and marketing. We participate in the shows. Business will continue to improve but it will be more or less in the same range.

Ebitda is running at about 17-18per cent, we are looking at 20 per cent, over the next two-four quarters. We will continue to invest in sales and marketing, as we need the right people and be at the right place to bring out our story.

Our practice is that if the licence fee is $2 million but my delivery is going to be across four milestones, then we recognise the revenue not in $1 million or $2 million but on efforts spent.

(For the quarter ended March 2007, Polaris clarified in the conference call with analysts: The margin growth has gone down in this quarter. Though the margin was improving in the earlier quarter, it has shown some dip because of the revenue, which is not according to expectation. It is not a margin shortfall, it is a revenue shortfall of $2.5 million. Marketing costs are going up. We are intentionally investing in sales and marketing. Going forward, the margin growth will happen when the sales and marketing problems get stabilised to a level where we need not invest more in sales and marketing, and our revenue growth as against cost will become a higher percentage of a total increase in growth. A couple of projects did get delayed and we had already planned for the resources and the delay happened because of the restricting things that are going on in Citi (Group) side, and therefore it took us a little time to re-deploy some of those resources and some of those overheads are also factored into the margin loss that you see now.)

What if the pricing model is the same, where you charge based on business transaction or is it an ongoing relationship?

The market also has to be ready. Today the customers want one-time investment. They ask what the cost upfront is. The ASP model is for the tier 2, tier 3 banks, which is not our target right now.

Everybody is going to target the same pie, 30/70 gives you a foot in the door that gives you annuity. 30 per cent comes from the higher margins, but this must be disproportionately higher to be able to sustain a 70 per cent basis...

Why do you say that? TCS and Infosys are purely services, look at the margins they are getting. Isn't it on its way down, clearly?

No, that's because you are not looking at the demand that is there. The demand is higher than the supply... ..while the customer has options, everybody wants to outsource to India. There will be several large deals and there will be movement.

What would be the typical margin range that you would place for an Intellect-led business related to a domain versus a lower end, ALM kind of business...

Typically, the solutions margin will be, at the minimum, twice that of the ALM type of service. It also depends on how complex the deal is, what is the size of the deal and all that.

Domain-led ones will be anywhere between 30 and 60 per cent higher.

You said would reinvest in your business. It's about 11 per cent now, it was about 10 per cent in the previous quarter. How much more investments are you expecting in the next few quarters?

Our top line will go up, as a percentage of the top line even if I maintain at 10per cent there are more dollars available which will possibly happen for about the next couple of quarters or so, to remain at the similar type of percentage, the normal end as you know is 7-7.5 per cent, because in the last quarter we added another 100 people in sales, pre sales, etc., which is reflected.

The message is that the sales structure is beginning to fall well in place, but there will be certain expansions in the new market, some more high-calibre people will be joining us.

Which means you are not going to make aggressive investments going forward ... depending on the state of the market?

We do not feel that need now. The sales structure is meeting the need of the market, and the future investment will come because today we are putting in people who have got eight, 10-12 years' experience in Polaris, with lot of experience in sales in Citibank. We want to go one or two steps further by getting the domain experts from the industry-leading companies.

And you talked about 18 new relationships, I mean the largest you claim to be in a single quarter. What are the net customer additions?

We are in an acquisition mode. We have started acquiring a lot of customers very aggressively in the last six to eight quarters, so we are not losing too many... in the last quarter I don't think we lost even one.

You had indicated that greater than some large clients need to grow 20 per cent. Is 20 per cent sustainable? I mean non-Citi clients.

Definitely. Because the number of accounts which we have acquired recently are all categorised by Double A, Single A, Triple A, where the potential is $10 million, $5 million, $15 million. When we mine an account which gave us only just one equity deal of $5 million, then we try to position our lending, position our ERP solution, our wealth management, etc.

So largely it will be a combination from new clients plus client mining?

The client mining is the critical work. Acquiring the new customer in the quarter and building and starting it will only contribute a smaller part, it will then provide the platform for mining in the next quarter, that's the cycle.

On the margins front, linked to reinvestments?

Our internal target definitely works to 20 per cent as such.

So, 20 per cent is sustainable and not taking it up to 25 or whatever?

In the next four to six quarters we definitely want to hit 20.

When you're entering the market, what are the drivers for positioning the platforms, markets especially now that you're entering the US, what kind of diligence have you done before you decide to position your product?

Although analysis is done in the following manner, one is definitely going through reports from Gartner, Forrester, etc, let us take a pact in Tokyo where lot of wealth management opportunities are there, the local vendors are not providing the wealth management solutions, consumers are investing money to real estate and other things, that does not really matter, investment in different type of asset classes, etc, etc.

Basically we do a multiple step review: conceptualisation, think it over; eliminate whatever is not suitable (For example, trying to position some comprehensive solution in West Asia may not be applicable at all; or the requirements for collection fees in the US are different from those in India. So, the customisation required for my product will be so much that it's not worth it.)

McKinsey had done a study that validated your business last year. What parameters did you look at to validate the business model, because at the time when Polaris took over OrbiTech, the landscape was very clear...

The question we posed to them was, look, this is the current business model, product make, and we just acquired OrbiTech and therefore these are all the skills available, and in original Polaris, these are the skills and solutions available, the OrbiTech that we acquire, the performance of the company in the last four-six quarters was not as good as anticipated.

McKinsey could tell us how we could really structure ours because we have certain delivery centres, centres of our own and those we acquired as a result of acquiring OrbiTech. We saw that there should be a structure for delivery, a structure for presales, a structure for program management and so on. What should be the structure for the geographies, what should be the collaboration, fairly standard stuff…