

# Business Management: AFAB Is a Four-Letter Word

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**AFAB** (A-fab) noun:

- 1) a sale of “**anything for a buck**” in order to generate revenue and keep billable employees busy
- 2) a business situation which can impede company growth, differentiation and/or profits
- 3) in more mature firms, a symptom of lack of focus on specific product or service offerings

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However you define it, AFAB (anything for a buck) is a condition, which typically impacts a business at some point or points in its life cycle. It is essential to recognize when your firm is suffering from AFAB in order to take corrective actions. Failure to do so will impact your firm through lower gross margins, increased opportunity costs, and lack of brand and services differentiation. Even better, learn the warning signs (e.g., flat revenue growth or always needing different skills to staff projects) in order to avoid the condition whenever possible.

The remainder of this article addresses business growth and where AFAB can occur, AFAB’s causes, symptoms and treatment, and the benefits from minimizing AFAB in your firm.

## **Business Growth and Maturity**

The growth cycle of an IT professional services firm encompasses four phases. Many firms never experience the full cycle, which does not say they are not successful. It just means they probably did not reach their full potential. Also, it is possible that a firm can jump into the marketplace with a unique offering and rocket through the growth cycle. This situation would clearly be an exception.

The four phases of growth generally occur in the following sequence:

### *1) Business Initiation*

In this phase the business is just getting started either from scratch with some form of business plan or seeded by one to two initial accounts you have already presold. Attention is given to marketing and sales activities and quality of project delivery. Scope of services is based on what your team knows best, but to continue to drive revenue you sell what you rationalize you can deliver, even if you have to use third party contractors.

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This is the most typical scenario for AFAB. It is easy to justify, and it helps you generate revenue to fund the business. On the upside, you may begin to develop some long-term client relationships. On the downside, you have trouble differentiating yourself, because it is hard to define what you do in terms other than the breadth of technologies you use. To prospective clients, you sound like everyone else. In addition, you typically undervalue your services based on the price you can command.

## 2) *Practice Development*

At this point you recognize that there are some patterns to your technology work. You have specific focus on certain vendors and their products, so you decide to increase the firm's depth of experience in these few key technologies. Practice managers are assigned to lead the development of solutions, the management of people within their practices, development of partnerships (e.g., product vendors and training companies), and ultimately the profitability of the practices themselves.

It is during this phase that the firm starts to become known for its technical expertise. Most, if not all, of the company's work is done in the local market. Your technical expertise begins to narrow down the competition some, but differentiating the firm is still quite difficult.

## 3) *Business Expansion*

This phase is characterized by growth into business solutions and/or geographic expansion. Just as you recognized technical specialization in the earlier phase, your firm now has a pattern of performance in industries (i.e., verticals) and business functions (e.g., sales, human resources, etc.). The intersection of a technology and one or both of these other areas allows you to focus in on specific business solutions. For each one you assign a practice manager as you did for your technology practices.

These business solutions begin to provide the firm real differentiation. You narrow the field of competition down significantly and can begin to command higher fees for the work you deliver. In addition, as you master these more unique offerings in the local market and are recognized for your expertise, you are afforded the opportunity to take them to regional and national markets, especially those you view as being underserved.

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## 4) *Continuous Improvement*

Your business is growing, profitable, differentiated and known in the marketplace. The competition is aiming for you. You need to constantly re-evaluate all aspects of your business from service offerings to marketing and sales to delivery to operations. Typically, the two biggest areas requiring focus are adjusting your offerings to meet market needs and improving efficiency in delivery and support services.

This is a time when you can more confidently introduce new ways to provide offerings to your existing and target clients such as managed services (e.g., application support or network infrastructure) and SaaS (i.e., software as a service).

AFAB is prevalent in the first phase, Business Initiation. It can also occur in the other phases co-existing with specific practices or business solutions. In some circumstances, AFAB can be justified on a temporary basis. For example, if your firm is exclusively projects-based and you are experiencing the down side of the “roller-coaster” sales effect, then you might need to take action to improve utilization by accepting work outside of your normal scope. In this case, keeping a constant eye on resource allocation is vital in order to minimize the time AFAB is prevalent.

### **Causes of AFAB**

There are several reasons AFAB can surface in your organization:

- Being in the Business Initiation phase of your firm’s life cycle (where AFAB is a normal occurrence)
- Not defining your scope of services and just assuming that over time it will define itself
- Lack of attention to business planning and analysis of results – you are busy *working in the business* and unable to dedicate the time necessary to *work on the business*
- Unassigned billable consultants on the bench
- Relatively lean sales pipeline
- Having a good management team, but lacking someone with the experience to proactively manage your services portfolio

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## **Symptoms**

The warning signs of AFAB are numerous. The issue is having controls in place to recognize them as soon as possible. Among the symptoms are:

- Revenues are flat or are growing at a decreasing rate over time
- Each project you sell is a one-off (i.e., unique where you have not done the work before) or is another variation of prior work – there is little repeatability in delivery
- You never seem to have the right staff to fill the available project roles
- Gross margins are flat or decreasing due to increasing cost of delivery – you are using more third party consultants at a higher than budgeted cost
- Sales cycles remain relatively long and key opportunities are bunched together under the same sales stage or two
- Qualified lead generation is inconsistent (e.g., limited marketing activity) signaling another roller coaster wave in the sales cycle

## **Treatment**

Eliminating AFAB and avoiding future business plateaus require diagnosis of the condition, treatment and preventative measures designed along three concepts:

### *1. Focus*

- Review historical information on projects (i.e., numbers and revenue) to identify patterns of technologies used, industries served, and business functions and issues addressed
- Review historical client information (i.e., numbers, revenue, industries, company size, buyers, issues, length of time as a client, etc.) to identify an ideal target account profile
- Factor in current sales pipeline activity and knowledge of other areas (e.g., pending changes in technology, potential marketplace changes, etc.)
- Refine your services portfolio to include the offerings that best support the direction you set for the company

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- Identify and assign practice managers to lead each area in further development of solutions, management of their consulting teams, development of partnerships, sales support, service delivery, client relationship management, and producing favorable financial results

As elementary as it sounds, it is surprising how many IT services firms do not perform an analysis of their projects and clients to ascertain this important information.

## 2. *Alignment*

- Assure that the company management team is in sync on the direction of the business and decisions made around your services portfolio
- Provide clear definition of goals and objectives to the business areas that will support the practices, especially marketing and recruiting
- Communicate the newly refined business strategy internally, then to the marketplace when ready

## 3. *Metrics*

- Enhance your monthly performance dashboard to include indicators of a potential AFAB situation (e.g., growing use of third party contractors)
- Manage the sales pipeline to notice the ebb and flow in new leads, delays in closing opportunities, etc.
- Develop performance reporting for each practice to enhance the manager's ability to run his/her business

Each of these three areas (i.e., focus, alignment and metrics) requires ongoing attention as part of leadership's responsibility within the business.

### **Benefits of Minimizing AFAB**

While AFAB has a place in the Business Initiation phase of a company's life cycle and can be justified at other times on a temporary basis, you must develop the discipline to manage AFAB to a minimum, which means learning to say "no", an uncomfortable thing to do. The potential benefits of preventing or limiting AFAB by developing solutions addressing specific industries, business functions and technologies in your firm include:

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- Enhanced differentiation of your service offerings
- Greater opportunity to work with client executives when you sell business-oriented solutions
- Increased repeatability of projects and work components
- More efficient projects, thus lower costs of delivery
- Reduced risk on projects
- Better pricing opportunities based on differentiation
- Increased revenues
- Improved gross margins
- More efficient on-boarding of new consultants

These benefits are real and do not require significant incremental investment in your business.

Do you suffer from AFAB?