



Anchor Away!

What's a company to do when it loses its lucrative public-sector anchor client?

The company: Donna Cona is the largest Aboriginal-owned technology company in Canada. It offers management consulting, systems integration, technical support and infrastructure design and implementation. It has over \$10 million in annual revenue and plans to reach \$30 million to \$50 million in revenue within five years.

The situation: Because of a trend towards “insourcing” of IT functions, Donna Cona stands to lose its largest client, a government department. With its traditional source of business drying up, Donna Cona needs a strategy to leverage its unique expertise to create new high-margin business in areas such as consulting and technology planning.

THERE WAS AN UNMISTAKABLE air of urgency in the room where Donna Cona's executive team had gathered for a meeting. The company – an Aboriginal-owned technology and consulting firm based in Ottawa – had just been told that its anchor client was cancelling a long-term contract, opting to move in-house the help-desk and technology support services that Donna Cona had been providing for several years.

The news was calamitous. The client, a major federal government department, accounted for almost half of Donna Cona's annual revenue of \$10 million, and the contract had provided the decade-old company with a secure foundation for growth. Now, all of that was in peril. Worse, the federal department had decided to encourage Donna Cona's on-site staff, all still under contract, to consider joining them.

Ironically, the news arrived just as Donna Cona's leadership team was in the midst of a strategic planning session, hoping to craft a road map to more than triple the company's size over the next five years. The plan was ambitious and it assumed that the federal contract would at least be maintained, if not expanded. Those hopes, however, were now dashed. Although happy with Donna

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Cona's work, the department was dealing with internal pressure to cut budgets. And as one Donna Cona executive remarked, when government departments have to find savings, "they always look first to external service providers like us."

The executives at the meeting – including senior members of the management team, such as chief executive officer John Bernard and chief financial officer Gary Fox – were distracted and nervous as they digested the news. They tried to bring their focus back to their agenda, but questions about the future long-term strategy were answered hesitantly and half-heartedly.

There was a direct solution to this problem: refocus the company on high-margin markets, such as consulting and technology planning. Donna Cona had made inroads in these areas. Unfortunately, it hadn't progressed as quickly as it might have, due to the demands of serving its major client's needs.

With visions of half Donna Cona's revenue vanishing, the executives knew they could waste no time in charting the way forward. The question hanging over their heads was, Which steps to take first?

RECOGNIZING THE DIFFICULTY the executives were having, a consultant at the meeting

executive, was also a member of New Brunswick's Madawaska Maliseet Band.

Cultural heritage, however, was more than a point of pride. It also helped get the firm off the ground in the mid-1990s, as many of its first technology projects with the federal government were awarded through the Procurement Strategy for Aboriginal Business, or PSAB. This program gave Aboriginal-owned companies preference when contracting for services that would serve primarily Aboriginal communities. The PSAB also encouraged federal buyers to reserve other contracts for Aboriginal-owned businesses, though participation varied dramatically between departments.

Aboriginal status was a point of pride at Donna Cona. It also helped the company win "set-aside" government contracts. But even those deals created challenges

No one could blame them. The loss of the anchor contract was more than an immediate crisis. It also brought to a head longer-range issues that the company had expected it would have more time to deal with.

Among their leading challenges was the simple fact that the market for providing help-desk staff had changed since Donna Cona signed the federal contract in 2002. Competition had increased – dramatically – and the price for help-desk staff had dropped. The business had become commoditized, and companies could hire help-desk staff from the same temp agencies that provided warehouse workers or clerical support. Even if Donna Cona could renew its contract or find a new major client, it would have to accept lower fees and reduced margins.

named Andrie Nel turned to a whiteboard and started prodding them for ideas. "If you want to preserve what you have," she said, "you've got to start thinking in broader terms. What are your competitive advantages? What opportunities are available to you?"

The group began to respond. "We're No. 1 in the Aboriginal space," one executive volunteered. In fact, it was hard to describe Donna Cona – now a substantial firm of 80 employees and subcontractors, with offices in Vancouver as well as the national capital – without making reference to its Aboriginal identity. Staffed by Aboriginal people, it was named for the Iroquoian chief who met 16th-century explorer Jacques Cartier, when he first landed in what would become Canada. Bernard, who was the company's founder as well as its chief

But Donna Cona's executives knew that Aboriginal status alone would not be enough to ensure survival, let alone growth. For starters, the future of the PSAB was far from certain. Rumours of turbulence and change with the program abounded. And even if it remained unchanged, Donna Cona's executives knew that it was risky to rely excessively on the program and that they needed to diversify away from the set-aside market.

But how would they achieve that goal? A number of ideas started spilling forth as the executives began to consider the advantages that helped Donna Cona distinguish itself from the pack. For starters, the company had unparalleled experience in rolling out computer network infrastructure in remote areas. From satellite communications projects in

INNOVATIVE IDEAS.
RELEVANT EXPERTISE.

small communities to a territory-wide project in Nunavut, few companies knew more about managing projects in the North. Donna Cona also enjoyed a reputation for quality in the South. "We provide clients peace of mind," noted Barry Dowdall, Donna Cona's vice-president of business development. "When we're on the job, their technology simply works. No late-night calls. No outages. They know we do our job well."

Adding another strength to the list, yet another executive mentioned Donna Cona's loyal staff. While many technology companies suffered from high attrition, Donna Cona employees remained unwaveringly loyal, even though that loyalty was about to be tested by potential job offers from the federal department. If Donna Cona's executives wanted to keep them – and help secure the company's future – they had to decide where the company's new opportunities lay, and how to capitalize on them.

WHEN THE EXECUTIVES turned their attention to the question of where they were most likely to find growth opportunities, they came up with a range of responses. Distant communities, Aboriginal bands and resource industry job sites were clamouring for technological infrastructure. There were also huge opportunities in remote and rural Internet deployment, using a suite of technologies and standards known as WiMAX. There were even more opportunities in the North with GIS and mapping, driven by the needs of resource projects.

That was a good start, but it wasn't a complete solution. "The problem," noted Dowdall, "is that governmental ministries will drive the demand in each of those areas. There's not much we can do but test the wind and try to put ourselves in the right spot to react, if those opportunities do jump onto the political

agenda." In other words, there was little Donna Cona could do to drive business other than try to position itself so that it could react quickly and convincingly when the contracts were eventually put out to tender.

Indeed, this kind of "reactive marketing" had become one of the key issues inhibiting Donna Cona's ability to develop quickly in new markets. The reality was reflected in the company's sales force, which consisted of two proposal writers who responded to requests posted on government websites. The head of the company's consulting group, meanwhile, had invested her time on "relationship" sales. She had landed a few small, high-margin contracts, and Donna Cona executives had been encouraged by the group's performance. Nevertheless, efforts to extend the approach had been limited.

But if Donna Cona faced numerous challenges, it at least had one strong card to play: Years of conservative fiscal management had left the company with almost \$1 million in retained earnings and almost no debt. It was a modest war chest, but it would go a long way in helping the company finance its renewal.

Still, there was debate over what Donna Cona should look like going forward. Bernard, among others, felt that it was premature to give up entirely on the core-client contract with the federal department, and he argued the contract could – and should – be salvaged. "We need to get back to them with alternatives and show them we can help them work within their budgetary restraints," he argued. Others, including Fox, Donna Cona's CFO, countered, saying that the company's priorities should include a broader scope for business development, rolling out new offerings and finding new clients.

Whatever decision was to be made, it had to be made quickly. With the last dollar of the

anchor-client contract scheduled to be billed in just 18 months, the turnaround at Donna Cona had to begin now.

The Expert View

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As an entrepreneur, it would be difficult to imagine a better customer than the federal government: It spends a hundred billion dollars a year, it hands out massive contracts to small and mid-sized firms, and its accounts payable are backed by no less a power than general taxation.

But, as Donna Cona has learned, there are challenges specific to dealing with government clients. When budgetary cuts are parcelled out, there is a well-known tendency to "shave the ice cube," cutting a little everywhere and saving a little of everything. And when budget control efforts hit the divisional level within a ministry or department, external contractors are natural targets. So how can Donna Cona – or, for that matter, any firm serving public-sector clients – protect themselves from uncertainty without giving up the largest customer that they'll ever have?

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First, they need to understand how people move within government. There was a time when individuals would spend an entire career within a single ministry, rising through the ranks. The most successful would become deputy ministers. Now, leaders at or above the level of assistant deputy minister often shift horizontally, from ministry to ministry.

What this means is that business leaders need to cultivate relationships not only within departments and ministries, but also with deputy ministers. While the rank and file provide a steady and ongoing relationship, the leadership is prone to move – and that move

technology as part of an alliance of firms, not clearing the bush in unexplored markets.

As a final note, it should be said that companies should give up their unique advantages only with the utmost reluctance. Though Donna Cona's executives are correct in recognizing that set-aside programs can't be their only source of business, they're entirely right to stay focussed on targeting development in Aboriginal communities. Though the mechanics may shift and change, Aboriginal economic development will remain a central policy priority for governments, regardless of their political stripes. Demographic and cultural trends

Meanwhile, Donna Cona started preparing for life beyond its anchor client. With a fresh vision and a newly crafted business plan, the company mobilized efforts to attract new customers and expand old relationships. "We had been absent in Nunavut for a number of years," Fox says, by way of example. "But the director of our technology architecture group went back and worked hard on sales."

Likewise, the heads of the company's business group began working together on sales and marketing initiatives, breaking down the "silo" structure that previously reigned throughout the company. The efforts brought considerable new business to Donna Cona's doorstep.

Using its financial war chest, Donna Cona also invested in other forms of corporate development. It expanded its sales force, adding direct marketing staff to complement the work of the company's proposal writers. It also hired a recruiter to improve its ability to compete for IT staff and maintain the calibre of the company's talent pool.

On the new business front, Donna Cona developed offerings targeting the security and application systems markets, with pilot projects launched in a number of First Nation communities. The company also launched several partnerships and joint ventures – a strategy Detomasi considers particularly savvy – including a new consulting company, called Bell and Bernard, aimed at facilitating collaboration between governments, corporations and Aboriginal communities. "This new company has been operational for about 10 months and it is already showing a profit," Fox says.

After a year of aggressive change, Donna Cona has largely avoided the large drop in revenues its leaders expected from the cancellation of the anchor-client contract. In fact, this year's revenue may exceed last year's. Those numbers will likely dip next year, but after that, Donna Cona will be positioned for growth.

Note: The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The views represented here are solely those of the case authors and are based on their own professional judgment. Certain names, scenarios or identifying information may have been disguised to protect confidentiality.

In working with the upper echelons of government, firms need to position themselves as sources of expertise when policy is under development

can be leveraged to open doors in other departments and ministries.

And if businesses need different levels of relationships, they also need different relationship strategies. At lower levels, firms need to focus on customer education, reinforcing how they add value to a department's work. When the full value provided isn't instinctively perceived by the client, it can lead to challenges like Donna Cona's, where the client may not have fairly compared the costs of in-house employees versus outside contractors.

At the upper echelons, companies need to establish themselves as reliable sources of expertise for senior leaders. Firms like Donna Cona should aim to be present as policy and strategy emerge, not only after policy is set and the requests for proposals are issued.

Second, firms that rely on government contracts need to find strategies for diversification. With some retained earnings to deploy, there can be a tremendous temptation for leaders of small firms to try to blaze trails into new and under-explored market spaces. That's not always the best strategy. In Donna Cona's case, the company's ideal role might be using its experience in Northern infrastructure and

will only add to the salience and centrality of the First Nations to Canadian life. Donna Cona should ensure that it retains this focus and organizational character.

The Outcome

In the end, the points of view represented by Bernard and Fox both got their way. Donna Cona opened a dialogue with the federal department, offering creative alternatives to the client's plan to cancel its contract outright. Instead, Donna Cona offered to collaborate with the department on its in-sourcing project. It also loosened the bonds of its agreements with employees, encouraging them to accept job offers from the department. As a result, the staff members were able to make orderly exits from Donna Cona, secure in their jobs and on great terms with their former employer. Just as important, the federal department got to maintain the service it was used to.

As part of the agreement, the department also agreed to put part of the old contract out to tender. "That's all Donna Cona wanted – an opportunity to bid on the work and keep it Aboriginal-supplied," Bernard says.