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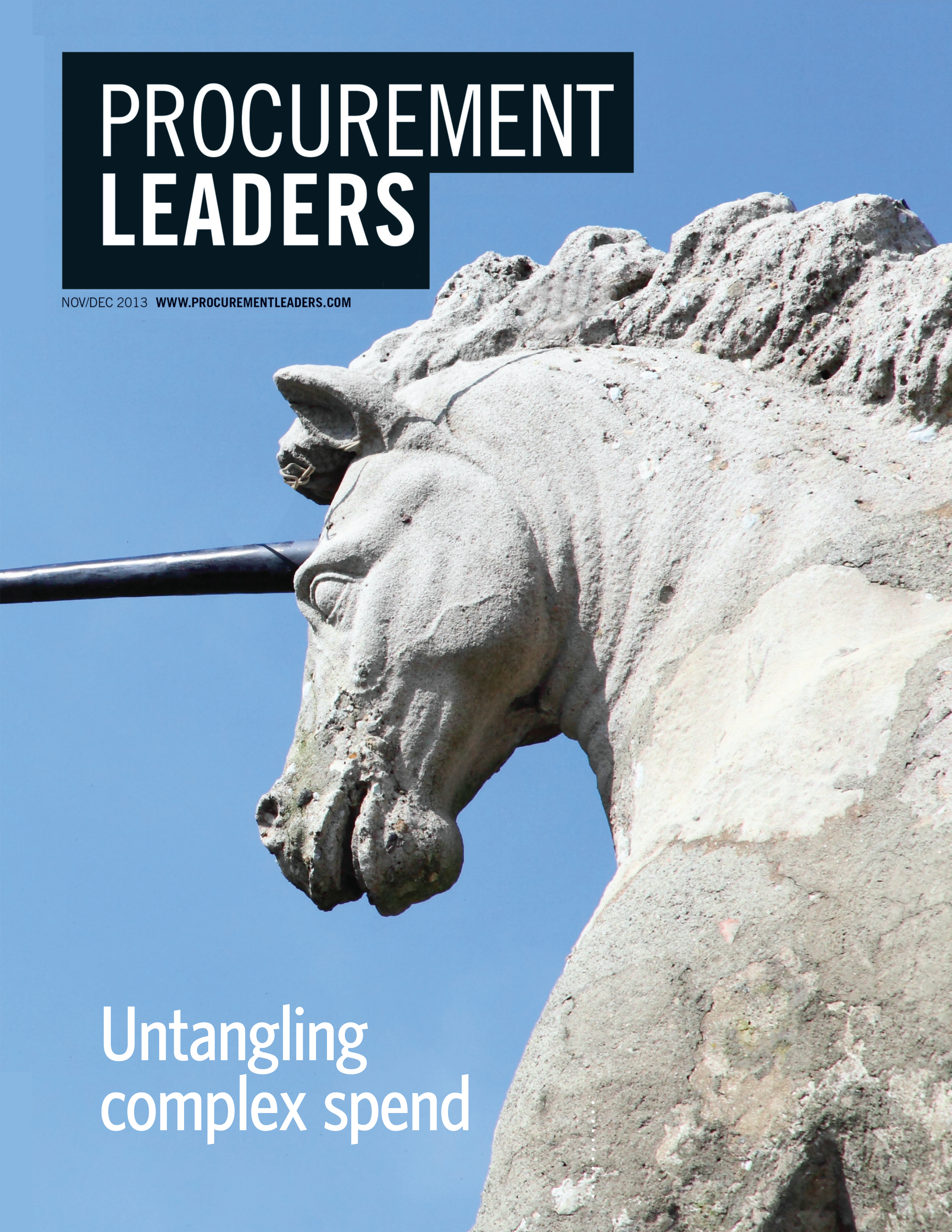

Untangling complex spend

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KEY TAKEAWAYS

- Annual spend for professional services is huge, but obtaining value from them can be complex and goes far beyond simple cost savings.
- Suppliers often bundle high-value and low-value services together for convenience, but the high premium charged on these should be weighed against the lesser value products.
- Supplier relationships can go beyond cost reduction. Buyers need to look at how they consume services and if this can be made more efficient through strategic partnerships.

Illustration: Jonathan Croft

THE GLOBAL ANNUAL spend on complex professional services (covering a broad variety of services, including accounting, advertising and marketing, architecture and design, clinical research, consulting, engineering, financial advisory, legal, and tax) is now in excess of $1.5trn. Notwithstanding its size and importance, this segment remains largely unaddressed by many procurement organisations; buying is largely decentralised, managed by relatively senior executives who rely on a handful of trusted advisors to help them with high-value, high-risk business problems for which they see little reason to seek procurement assistance.

Here, we discuss the challenges posed by complex professional services spend and offer some suggestions for how to maximise value in those categories.

Stakeholder Resistance

There are two related issues on the path to bringing sourcing and vendor management discipline to complex services spend: How to gain credibility with internal stakeholders and how to deliver real value through sourcing and supplier management. To do either requires an understanding of what value looks like in complex services. (Hint: It's not all about cost savings.)

It is intrinsic to these services that expertise, judgment, and trusted relationships are of paramount importance. Value gains cannot come through discounts. The real opportunities lie in identifying ways that suppliers can help the company better meet its business objectives, avoid costs, consume less, and become less expensive to serve. Supplier margin compression through competition is possible, but marginal returns drop rapidly with this strategy, and sustainable year-on-year decreases are not likely. Moreover, if you lead with cost-cutting, the resistance may preempt other, more valuable opportunities. Instead, consider the ways in which procurement can help business unit and functional stakeholders gain a better return on their investments in these services.

Once granted access, procurement has to deliver. Doing so requires reaching deeper into the strategic sourcing toolkit and putting in place effective supplier management practices.

Unbundle services

Buyers have allowed their preferred providers to bundle a set of related services and deliver them together at a fairly steep premium. To be fair, this has been partly at buyers' demands for convenience and integrated services; but just because these lower-value services have, through habit and convenience, become bundled with the more valuable services, does not mean they must remain so.

Law departments have learned that they can require outside counsel to use third-party vendors for some document handling services, applying the client's negotiated rates with no additional mark-up. The same is now happening with other 'paralegal-like' services including reviewing and coding documents as part of pre-trial preparation, basic filings of corporate registrations, trademarks, and other simple forms, and even some due diligence activities. In the marketing arena, companies have found that the firm that develops a new brand strategy need not also build the supporting websites; the firm that designs the website and so on. Primary and secondary research in consulting can increasingly be separated from the analysis of the data, much as strategic advice can often be disaggregated from some elements of its implementation.

The benefits available from unbundling and re-sourcing lower value tasks are significant. New suppliers are applying technology, process expertise, and a global talent pool in a way that many traditional firms offering higher end complex services have failed to do. And these benefits come not only through cost savings; quality often improves on these lower-end (but voluminous) deliverables, and turn-around times decline.

Implement alternative pricing models.
Procurement can help an organisation do more than trade volume for discounts. Analysis of consumption and spend patterns can point to outcome or output measures (such as success fees and unit pricing) that may be more useful indicators than inputs (such as hours spent). Fixed fees for projects or portfolios of work can also significantly change incentives. Risks, not only of the outcomes but also of the efficiency with which they are achieved, can be shared with fee collars and other hybrid pricing models. Portfolio pricing may also help align incentives and give the business greater budget certainty.

Engage suppliers in joint value discovery
To deliver benefits beyond cost reduction, engage the business' preferred providers in a structured joint value discovery process; put business challenges on the table; ask for help; and recognise that sometimes to unlock value, buyers must change how they consume services and how they work with their most strategic providers. Clients often don't realise how they make themselves more costly to serve or discourage providers from innovating or investing. Similarly, unless providers can temporarily set aside their focus on delivering the current project and selling the next engagement, they often fail to see opportunities to become more valuable to their clients.

Procurement teams can help facilitate joint value discovery sessions with internal stakeholders and service providers. Such sessions work best with some advance preparation, including stakeholder interviews and analysis of the data. Such "diagnostics" should include: a gap analysis of the value expectations for the relationship; stakeholder perceptions about provider performance, scope management, forecasting, and responsiveness; hypotheses about opportunities for future value creation; and indications of how well governance is working.

Value discovery efforts need not focus only on whiz bang innovations. Sometimes eliminating distractions can deliver significant value. One of our global media and entertainment clients was surprised by a provider who demanded a significant increase in their fees. Instead of getting defensive, their procurement team inquired: why did the provider feel such a significant fee hike was justified? The response was immediate: "It is quite simple, really. Your account is far and away the most difficult and costly to serve of all of our clients around the world. Your teams routinely miss their deadlines; fail to respond to our questions in a timely fashion; change requirements mid-stream; ask for additional work outside of normal scope, with impossibly demanding deadlines; and require rework of materials that any other client would accept. Beyond that, our turnover on your account is much higher than normal, and we have actually lost two excellent staff members who quit after they felt they were unfairly abused by one of your senior executives. Your fees have to go up by 30% because of the additional costs you force on us to serve you the way you want."

	If I let procurement help	If I continue to resist	
−	They will want me to stop using my current set of trusted advisors	I preserve control and autonomy	+
−	I will have to build new relationships, and it's bad time	I can apply my own professional judgment and expertise to assess providers	+
−	I will have to use someone unproven, who may not be as good	I continue to use providers I know, trust, and who have always come through for me	+
−	I will have to teach them my business	I can focus my time and attention to really important things	+
−	If the new, cheaper providers make a mess, I'm still accountable	I can always agree to take another look at this when we're not really busy/under pressure	+
+	I may save some money (but it may not come from my budget)	I upset Procurement	−

After some further probing about the situation, the procurement team was able to bring key parties together to re-launch the relationship with a very different governance and communication process, and a new fee structure that lowered the cost to the company and substantially increased margins for the supplier.

Complex services lend themselves much more to measures of value and return on investment than to tallying cost savings. Companies buy legal services to avoid huge risks; they hire consultants to help shape strategy or drive major operational improvements; they invest in marketing to drive revenue. Thus tracking reductions in the cost of buying units of these services is not nearly as important as understanding the financial and strategic benefits those services yield. What is easy to measure (e.g., hours of effort expended, numbers of ads placed), is not especially useful as an indicator of value. Think of the task as developing scorecards that facilitate problem-solving and focus attention on areas where resources could be deployed more productively. In the realm of marketing and advertising spend, for example, such scorecards track success against brand awareness and market penetration targets (outcomes), and the effectiveness of their communication and consultation protocols (enablers). Effective agency scorecards employ qualitative measures (such as account management and strategic communications and planning) and quantitative measures (such as broadcast and digital CPMs). If new pricing models, including results-based fee arrangements, are also to be part of the agency management plan, the parties must also establish clear expectations of what success looks like, and implement a well-structured performance feedback mechanism. ■

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