

Procuring Professional Services

Buying Support Agency

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Procuring Professional Services

- What are they?
- Why are they needed?
- The 7 Steps to Best Value



What are “Professional Services”?

- Management Consultants (largest single group)
- Legal Services
- Financial Services
- Human Resources
- Sales & Marketing
- Engineering



Reasons cited for using Professional Services

- Specialist skills
- Objectivity & Independent view
- Supplementing existing staff
- Short term need for expertise not warranting permanent recruitment



Beware the pitfalls of poor buying practices!

- Mistakes can be very costly!
- Errors can result in:
 - Huge (wasted) up front costs
 - Misguided Strategies & even bigger ongoing costs
 - Unhappy staff
 - Bad PR
 - Resignations, Dismissals
 - Court cases



What the Papers say...

“National Scandal”

“Criminal abuse of taxpayers’ money”

“Her Majesty's Revenue and Customs has awarded consultancy contracts worth £4 million without first putting them out to tender.”



NAO Report (2001):

- 10% of £600M spent per annum by Central Govt could be saved by more effective Procurement, including:
- £45M by 8% fee rate cut so closer to average
- £12M by use of appropriate form of Procurement



The 7 Step Procurement Cycle



1

Specify Your Needs



Wrong reasons for buying Professional Services...

- To confirm existing prejudices
- To be seen to be doing something
- Smoke Screen



Procurement Planning Team

- Include all stakeholders
- Include Procurement early!
- Budget
- Project Brief
- Agree on timeframes, deliverables, review points



Things to consider:

- CLEAR Specification!!!
- What do you want to achieve?
- Targets (ROI)
- Objectives
- Time frames
- Is there Top Management Support?



Remember to ask:

- Is this mission critical?
- What is the Business Case?
- Ad hoc or strategic?
- Can some of it be done in-house?
- Has this been done before?
- How have previous projects been managed?





Discussion Points:

Any examples of inappropriate need assessment?

Do you always conduct ROI assessments before bringing in Consultants?

How many of you automatically include Purchasing staff at Need Assessment stage?



2

Do Your Research



Research:

- Internal Resources
- Duplication of effort
- Previous work done
- Supply Marketplace
- Collaboration
- Price Benchmarking

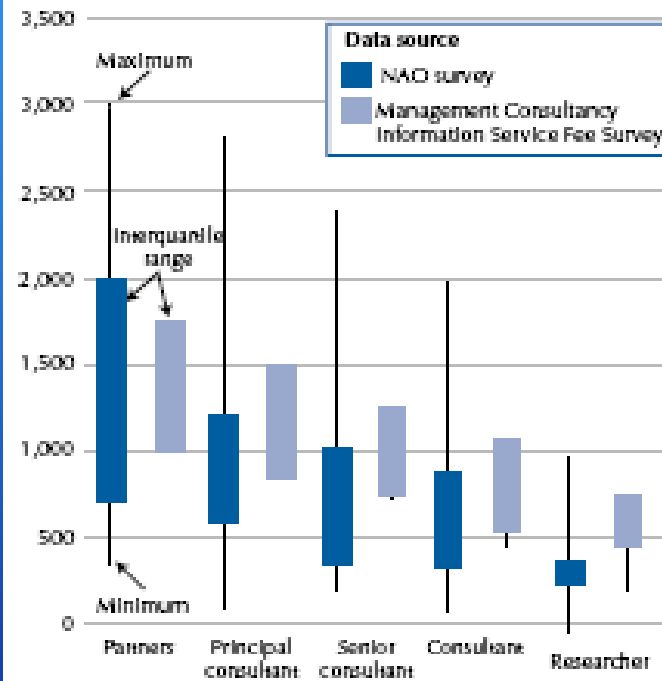


FEE RATES (CONSULTANCY SERVICES)

The range in fee rates which departments pay for consultancy services

The wide variation in fee rates suggests potential for savings

Daily fee rate (£)



- Notes:
1. The fees used excluded fees for legal services.
 2. Where the hourly rates were given by departments daily rates were calculated on the basis of a 7.5 hour day.

Source: NAO survey and Management Consultancy Information Service's Fee Survey for 2000-01

“1-2-3” RULE OF THUMB





Discussion Points:

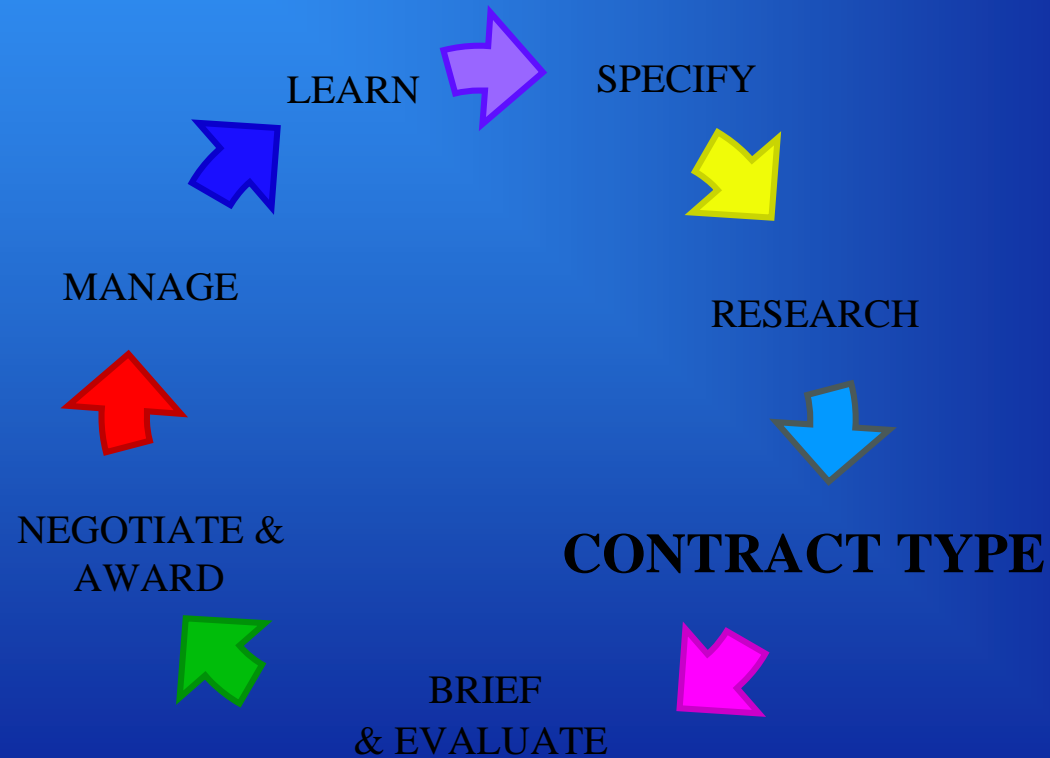
Any examples of Joint Collaboration to improve deal?

Do you maintain a database of approved Consultants, including past performance?

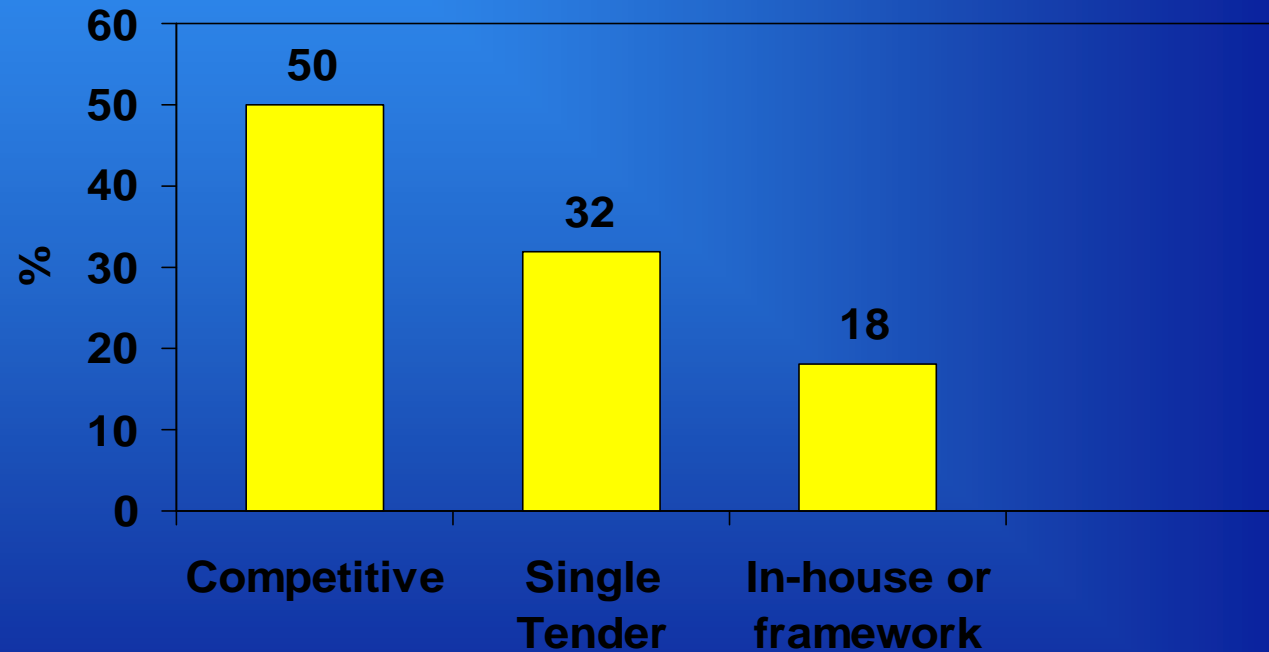


3

Decide on Contract Type



How the Public Sector procures Prof Services...



Yet 55% > £149k and only 6% < £10k



Factors to consider:

- Degree of specialism
- Frequency of work
- Degree of clarity of output
- Supplier tie-ups
- Resource needed to tender
- CBA



Least risk contracts have:

- Fixed fee, output based
- Staged payment based on milestone achievements
- Incentivise
- Variation controls
- If “no win no fee”, ensure clarity of what constitutes a saving



Need

Type of Contract

Requirements quantified, deadline known	Fixed Fee, payment on completion
Uncertain outcome, regular advice	Fee caps
Known service, sole supplier	Call-off contract, agreed rates
High Volume	Volume discounts
Time critical	Incentives for early completion
High value, quantifiable	Competitive Tender
Small value	Single tender, price negotiation





Discussion Points:

Do you have policy of tendering for all Consultancy projects?

How many of you choose companies on the basis of reputation or prior use rather than competitive tendering?

Do you have a minimum value below which you only have single tenders?



4

Brief Suppliers & Evaluate Response



What to communicate?

- Your business & objectives
- Clearly defined outcomes
- Type of contract sought
- Sample SLA
- Ask what they need



Evaluation team

- Cross functional (include Procurement)
- Report to Senior Management
- Audit trail
- Declare conflicts of interest



What should be evaluated?

- Their detailed service brief
- Experience & track record
- Cultural fit
- Methodology
- Individuals experience & expertise
- WHO will do the work?
- Time frames
- Fees & clarify “per day”
- Subsistence costs



Shortlisting

- Use simple scoring system
- Panel members score individually
- Ideally no more than 3 in shortlist
- Big isn't always best – have a mix
- Get them all to present (& visit them?)



Shortlisting

- Insist on their best staff
- Interview individuals doing work
- “Chemistry”
- Ask for and check all references
- Check Financial standing





Discussion Points:

Do you have a standard approach for evaluating Consultants?

Does anyone have experience of being a “training ground” for trainee Consultants?

Do you seek to organise the travel expenses?



5

Negotiate & Award Contract



Tips when negotiating

- Most will be prepared to negotiate!
- You are attractive!
- Seek Performance related fees (not days worked)
- Understand key drivers (e.g. utilisation targets)
- Get Price breakdown
- Challenge Expenses & Kick Backs



Tips when negotiating

- Aggregate demand
- Discuss repeat work
- Other Bartering Chips – what's important for you and them?
- Contract & Service Level Agreement (SLA)
- Ask for other Value Add & Cost savings



Contract & Service Level Agreement must include:

- Output deliverables & milestones
- Quantify
- Confidentiality
- Termination Clauses & Exit Strategy
- Intellectual Property Rights?
- Anti-Poaching



Other requirements...

- Progress review meetings
- Potential Implementation Support
- Disaster Recovery Plans
- Clear lines of Communication
- Prof Indemnity Insurance
- Check the small print



Performance Measurement

- Break down complex tasks
- Simple ranking scores
- Joint review
- Partnership approach = more value





Discussion Points:

Do you aggregate your spend where possible to boost purchasing power?

Examples of how you improve the deal?

Is Supplier Pay always linked to performance?



6

MANAGE CONTRACT



Operational tips

- Regular communication
- Deal with problems promptly
- Treat Consultants well
- Give them admin support
- Encourage Mixed Teams



Operational tips

- Set targets for performance improvement
- Examine over-achievement
- Give them the right internal staff
- Clear communication to internal staff
- Maintain risk log



Operational tips

- Don't allow new phase to start until current phase completed satisfactorily
- Encourage innovation for mutual gain
- Ensure Consultant doesn't save surprises for final report





Discussion Points:

Any examples of extra value given by Consultants?

Do you regularly monitor performance? Is it jointly managed?

How clear are internal staff about what Consultants are doing and are they heavily involved?



7

CLOSE THE LOOP – LESSONS LEARNT



Save money at the end!

- Joint Lessons learnt & Continuous Improvement
- Cost Benefit Analysis
- Maintain supplier spend/performance log
- Make visible to all
- Designate Supply Category “Champions”
- Check the invoices



Save money at the end!

- Keep Procurement involved
- Implement !
- Involve Supplier in implementation
- Sell the benefits internally
- Ensure regular tendering (every 2-3 yrs)





Discussion Points:

How many of you are aware of “Lessons Learnt” meetings post contract completion?

What lessons did you learn?

Do you see consultancy recommendations being implemented effectively?



Critical Success Factors

- Right people, right price
- See Consultants as valuable, costly resource
- Use for critical areas
- Use only when Top Management committed to change
- Clarity on why used and on what tasks
- Ensure can't be done internally



CSF's (continued)

- Work closely with them and monitor
- Implement their recommendations
- Assess value gained and lessons learnt



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