



LAURIE YOUNG

PROFESSION

HAND INSIDE THE GLOVE

The buying of top-level professional services is one of those areas where it is often difficult for purchasing to carry influence.

These services cover a wide range of offers including legal services, accountancy, consulting and merchant banking. Despite being highly sophisticated, big budget and important purchases, many have, until recently, been almost a law unto themselves.

High-level executive search, for instance, has been offered to CEOs of leading companies by partners in private practices, who have treated HR specialists with disdain and virtually ignored any buying involvement. Accountancy and law have been a little more structured; auditors being appointed by an audit committee and leading law firms proposing to be part of a 'panel' of approved suppliers. Yet the involvement of purchasing specialists has frequently been minimal and, where they have been engaged, there is scope for them to offer much more. The in-house counsel of leading firms, for example, have been able to brush aside periodic supplier reviews because they thought that they understood value criteria differently to their own buying function.

The governance changes put in place for public firms after America's Enron debacle have changed all this. Large international companies that are registered on the New York stock

exchange are obliged to ensure that selection processes are objective, clear and well managed. This has enabled several to initiate changes in buying processes for leading professional services and their experience is being passed on to others. It will eventually be recognised as 'best practice' and affect the approach of smaller companies across the world.

One of France's leading consumer product companies, for example, initiated a review of its search suppliers, which reduced its worldwide pool from nearly twenty to just three. The process created new worldwide rates of supply and



new measures of success, and they are now applying that learning to the other professions. The CEO is comfortable that governance requirements have been met and, if personally involved in a project, is happy to choose practitioners from suppliers available to them from a proper selection process.

In fact, it is now common for frequent buyers of search to have strategic relationships with leading firms. Both sides then invest in the relationship, the supplier learning in depth its clients culture and strategy. For the very best head hunters, this allows them to reduce the lead time of senior candidates because, knowing the firm, its strategy and the candidate pool, they can anticipate evolving opportunities and discuss informally with potential candidates. Moreover, a new measure of success seems to have evolved in that industry: 'candidate stickiness'.

Clients say that as a search firm has a long term agreement with them, they will get to know their culture and, as a result, successful candidates should stay longer.

As this thinking is applied to other professions ('auditor rotation', for instance, and more demanding legal tenders to get on 'panels') the suppliers can be heard to talk of 'commoditisation'; a worrying change for them. The leading professional practices have been some of the most successful business organisations that the world has seen. Their partnership structure, with cells of small practices, has enabled them to thrive when others fail. As a result, some are entering their second century of business, earning net margins that are often two or three times higher than the clients they serve. Many a leading professional service firm would, to date, have been disappointed with net margins below 30 per cent.

They seem to have been immune to the stark need to improve productiv-

ity in, for example, manufacturing which has led to outsourcing, offshoring and investment in remarkable innovation (like BMW's new flexible manufacturing lines). These important changes, though, are forcing them to consider innovative service redesign for, perhaps, the very first time. Buyers of legal services, for example, say that they just want some legal support to merely 'paper a deal' and in other fields, like patent registration, they think the process is becoming so commoditised that it is not even worth outsourcing. It needs to be efficiently automated.

This has led leading thinkers in some of the world's best known practices to 'offshore' professional services. All the big four accountancy firms, for example, have international networks with offices in most major centres. So they have, within their own organisations, client service staff that is charged out at considerably lower rates than those in the major centres like New York, London and Sydney. However, these are not integrated organi-

sations. Until very recently, the partners in each country shared the profit of the earnings in their own geographic patch. This made it very difficult for them to, say, use people in Malaysia to remotely work on contracts presented to clients in leading western capitals; a cultural resistance that informed buyers can challenge and drive to reap substantial price advantages.

In fact, in some sectors it is changing naturally. In accountancy, for instance, it is helped by the fact that leading firms are (for risk reasons) creating 'regional' profit pools, merging practices in, for example, Asia or the Americas. Whereas, those professions who already have firms that are 'one global profit pool' (in law, consultancy and executive search, for example) are already able to do this more easily. There are currently examples, not yet public, where some of the huge international firms are making arrangements with high quality smaller practices in cheaper markets. Like smaller hands inside a

massive, elegant glove, they work on projects remotely in order to preserve margins. So productivity is, at last, coming to professional services.

Why, though, shouldn't this value be passed to their clients? In addition to working out new value criteria and new measures of success in enduring relationships, buyers should press their suppliers to use their international colleagues in other practices. Although a partner in Paris, Melbourne or Boston might manage the interface with a client, there is no reason why an amount of the work should not, through technology, be passed to their colleagues in other countries who are trained in similar professional practice and speak English fluently. Their clients could press for this and share the cost gain with their own shareholders.

Laurie Young is an international specialist in the marketing and selling of services, and one of the few independent advisers to the professions who has himself been a partner in a leading firm. ■



PURCHASING SYSTEMS FOR THIS MILLENNIUM

SIMPLICITY NEEDS TIME

**Could your supply chain management system be updated?
ODCG Purchasing & Materials Management courses can bring your
operation into this millenium**

➔ **Purchasing & Materials Management Courses in all states year round**

Inventory Analysis & Applications Management	Production Planning / Tender Evaluation
Purchasing & Materials Management	Fundamentals of Purchasing
Links in the Supply Chain	International Procurement
Effective Storekeeping	Strategic Supplier Management
Plus 3-5 day Residential Advanced Program	Supplier Negotiations

For further information regarding our courses please visit our website www.odcg.com.au
Phone (03) 9763 5300 "Owen Davies group" was established in 1978

