

# Buying spree

**One aspect of business development which both partners and BD people have to deal with is the “buying group”; the different people involved in the purchase of a professional service (particularly for business clients). Unfortunately, in the western world right now the mix of that group is changing and specialist buying functions are getting a stronger hand. This appears to be a profound change with important consequences for BD plans and practices.**

**Until recently many partnerships have had easy, informal relationships with senior in-house people and this has helped them to walk away with large, high margin contracts.**

Throughout the latter half of the twentieth century, for example, the premier search consultants won their work through their partners' direct contact with board level leaders and had little to do with HR functionaries. Similarly, until the disruptive regulatory changes after the Enron debacle, few cared much about audit so accountants were routinely reconfirmed as auditors at the annual general meetings of PLCs. In legal services, the in-house counsel of many leading companies have been sceptical about the grounds on which their corporate purchasing specialists judged value. Once partnerships were on their “panel”, they seemed to use different criteria than purchasing people to determine whether their suppliers made a valid contribution. For instance, the legal officer of one leading international company said recently that he was sceptical of his corporate buying people who periodically turned up “promising to save millions but never did”.

The fallout from Enron changed all this; although the effects are only now beginning to be felt. One of the consequences of the greater governance requirements on PLCs and their directors is the need to be transparent about buying significant items,

particularly advice. Board level people (what the Americans call the “XO” suite) now have legal and regulatory requirements on them to ensure that certain business processes are robust. Although much of the Sarbanes-Oxley ruling was about culpability, financial audit and conflict of interest, leaders of PLCs (because they are responsible for managing public limited companies) are having to ensure that processes are beyond criticism. This is particularly true if they are quoted on the New York Stock Exchange. The personal risk from any impropriety is simply too great.

As a result, buying functions are gaining more influence on the purchase of professional services and are developing more rigorous processes by which they determine value for their employers. One of France's leading consumer products manufactures is typical of many. It recently reduced its worldwide pool of executive search firms from nearly 20 to just three. Using regulatory requirements as a catalyst, the purchasing team worked with the HR leader to create a list of potential suppliers and then worked through a selection process to choose the successful firms. It would have been unheard of for top flight head-hunters to be treated this way just five years ago. They would have appealed to the CEO. Yet, CEOs now have the spectre of public scrutiny on their shoulder and (as several told me) are content to use individual partners who are available as a result of this transparent process. The company is now, incidentally, applying this experience to its legal, accounting and consultancy suppliers.

So purchasing specialists on the international scene are learning to buy and get value from professional services. Some years ago a similar step-change occurred in their approach to another category of purchasing: computing. Until then, purchasing had been a low level function dealing in commodities like paper and chemicals. Computing was seen as too complex for them to handle and purchases were led by the IT department. Yet the suppliers abused this position and sold a product simply because it was new or faster. For their part, IT specialists inside leading firms seemed to be fascinated by technology and rarely tuned into business benefits. When this industry hit new regulatory and technical standards, business leaders took charge and set up processes to ensure that a great swath of costs was managed properly. I remember one general manager saying: “I run a bank but I feel as though my IT department is part of the IT industry and not buying on behalf of the bank.” At that time, the institute of purchasing and supply's journals, conferences and training programmes reflected this profession's determination to learn how to buy technology and how to get best value; and they now have the whip hand.

This learning process is not always straightforward though. The leading mobile phone suppliers have just been through a ghastly period where they have been subject to harsh, impersonal “internet auctions”. (These have, incidentally, been

used in the United States by some companies to buy professional services). The only way to deal effectively with them is to develop consultancy skills which open a debate with the buyers earlier in the process. This helps the client to be clearer about its needs and to seek value rather than the cheapest price. Eventually, it prompts an evolution of buying standards in that market.

The parallels with the professions are striking. For instance, the Australian legal market was abuzz last year over the approach of the biggest buyer of legal services in the country and an RFP they had issued. Some of the clauses were clearly unworkable and typified a leading company trying to apply more rigorous buying processes for the very first time. BD directors and leading partners were forced to explain why they would not sign up to them. The company then had to adjust its demands.

Although the focus is largely on buying professional services for the big multi-nationals right now, any approaches which are developed will work their way down to smaller and more domestic companies in due course. So BD people need to prepare, train and coach their partners on how to handle this tighter discipline. They first need to realise that purchasing people are not necessarily the enemy, meeting with them when a proposal is not current and listening to their perspective; perhaps getting a retired purchasing director to brief the partnership on what their successors are looking for.

Contrary to popular belief, professional buyers do not just want to get the lowest price. They do see themselves as contributing to efficiency and cost control but they are just as interested in value for money. Nor will they always go with the cheapest tender. They will also be interested in “strategic partners”, looking for skills that will benefit their company over the long term. Although they will create different measures of success for those suppliers who work closely with them.

It may also be wise to invest in new skills. Some industries use, for example, commercial managers. These people negotiate the detail of contracts once heads of terms have been settled between principles. In many project based environments they make a fortune by ensuring that variations are charged properly.

In my view, much of the professional service industry is simply not equipped to handle the demands of more formal purchasing and, over time, BD people will need to facilitate a better understanding of this influential function.

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