Smart Consulting Sourcing Series | June 2020

Consulting Quest
Sourcing

Focusing the efforts
to maximize value

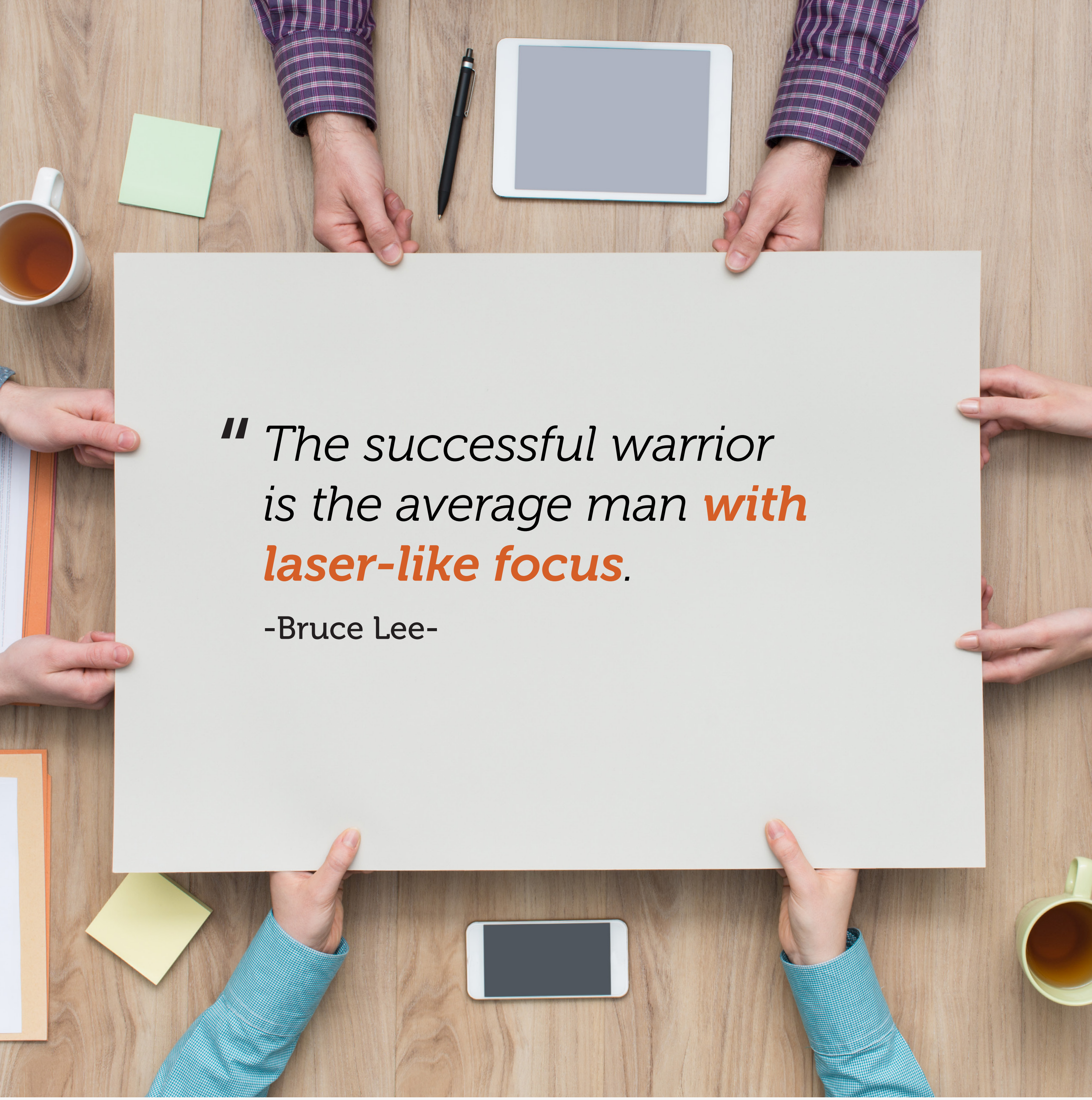
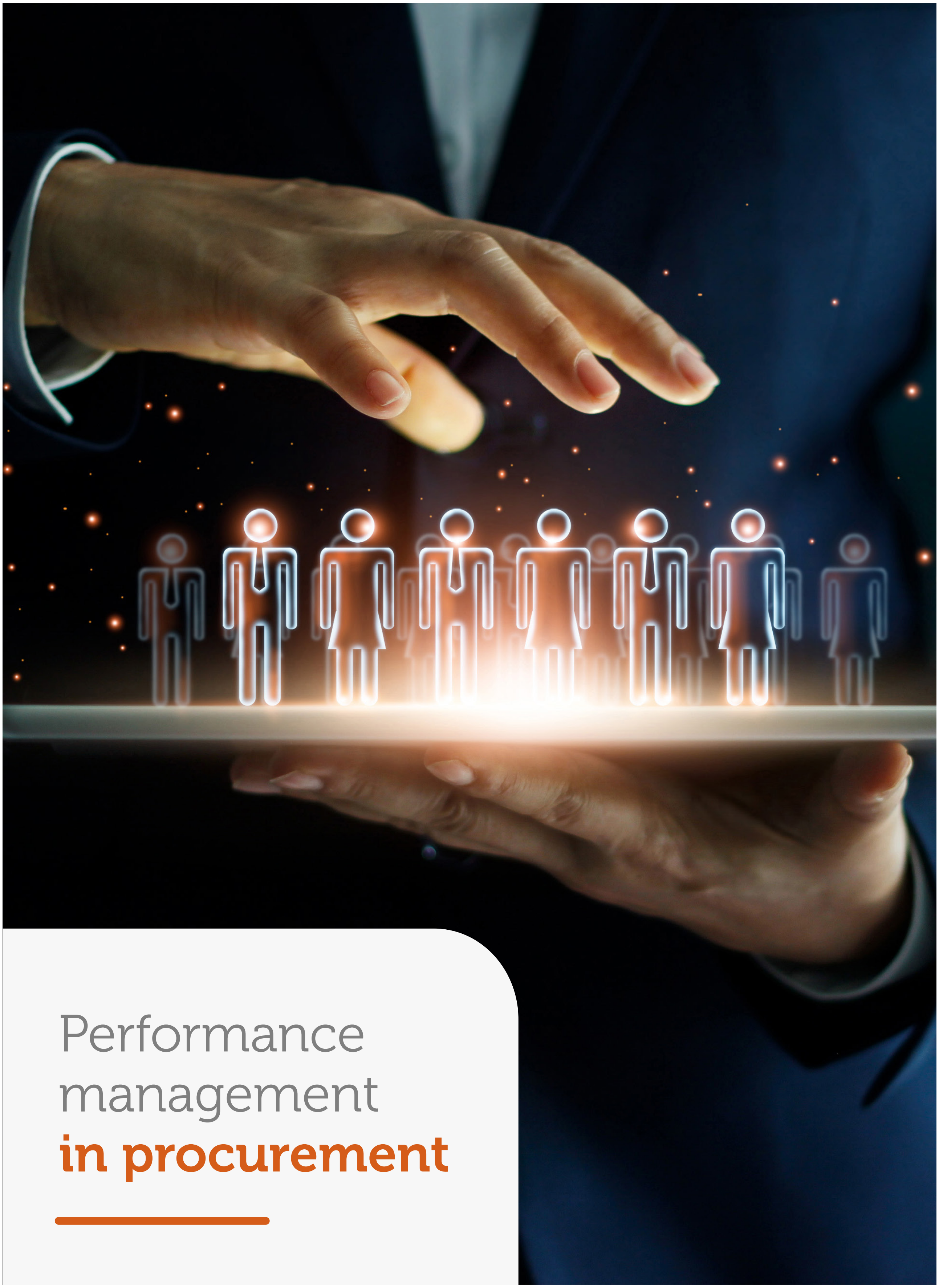

" The successful warrior is the average man with laser-like focus.
-Bruce Lee-

TABLE OF CONTENTS

Let's say you want to improve your high jump performance. Even those who barely jumped 1.5 meters in high school know that many elements influence the end result. Obviously, you need to perfect your technique from the run to the takeoff to the bar clearing. But you also need to execute at full speed, start the run from the right distance, and position your jump foot correctly. You need to work on your body, strengthen your legs and core strengths, develop your flexibility, and improve your eating habits. Therefore, unless you decide suddenly to become a full-time professional athlete, you will need to focus on the few elements that will maximize the impact.

As we have seen, when it comes to sourcing consulting projects, there are at least seven steps that require your attention. The key question is to understand where to focus your efforts to maximize the value you will get from the process.



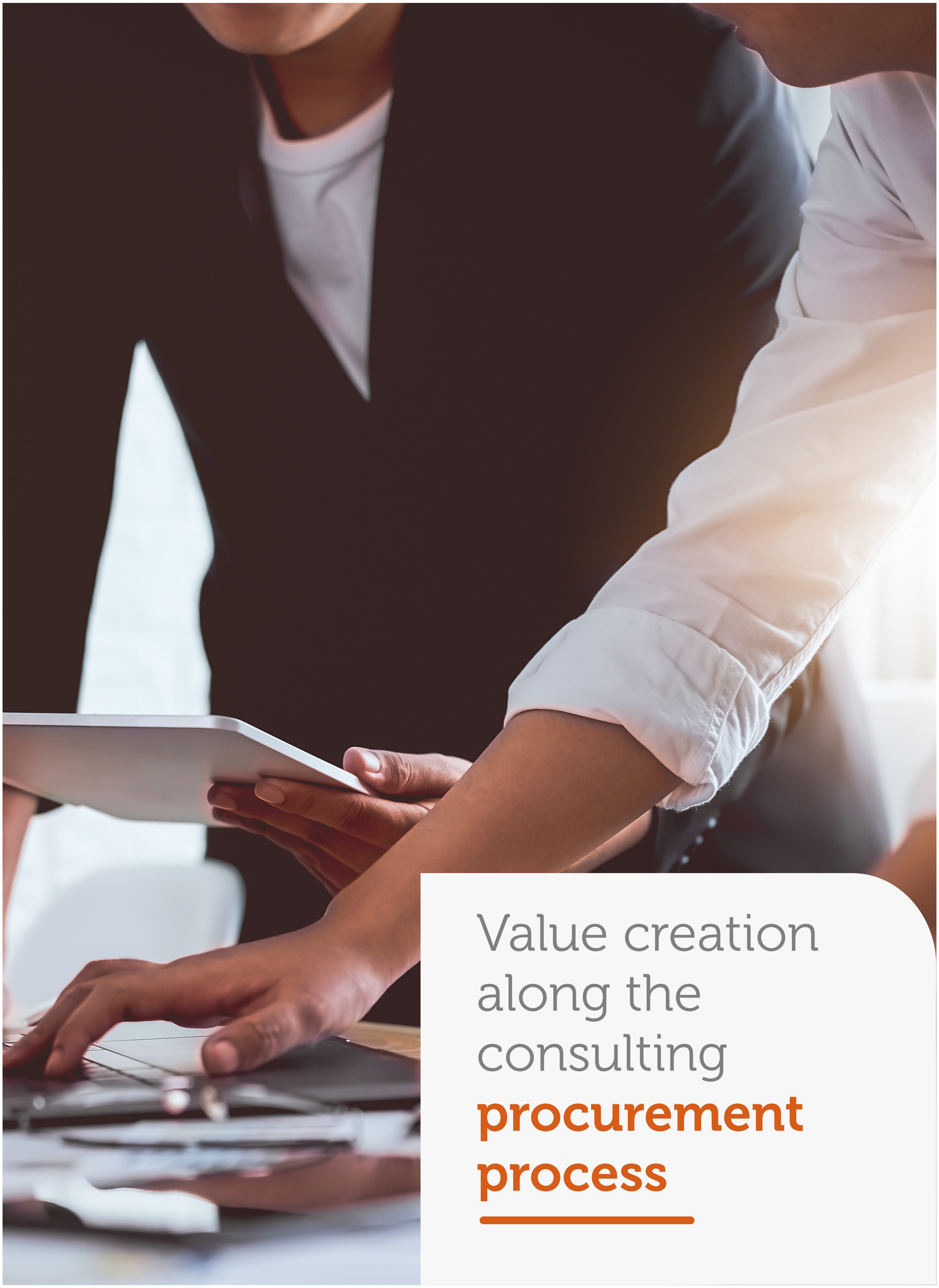
Performance management **in procurement**

If you look up the various methods to measure procurement performance, you will find that a majority of metrics focus on speed, spending under management, savings generated, cost avoidance, and impact on working capital. In some limited cases, you will find elements linked to vendors' performance, and for the most mature organizations, you will see some elements about risk management and value created.

Kate Hart from CIPS Australia identifies these key attributes that drive procurement performance: spend visibility, process efficiency, talent management, supplier performance, and strategic alignment. For each category, performance of the organization can be mapped along efficiency and effectiveness dimensions. Efficiency relates to "doing things right" (costs, staff, productivity, technology, cycle time), while effectiveness relates to "doing the right things" (savings, leverage, error rates, customer satisfaction).

More and more thought leaders in procurement look at performance using two categories. The first category relates to cost reduction as a combination of savings achieved and the associated cost to obtain those. The second relates to the value created by triggering new opportunities or opening new business models (open innovation).

Using the above playbook, let's see how this logic applies to the procurement of consulting services. What are the key steps that will yield savings and those that can indeed create value?



Value creation along the consulting **procurement process**

When looking at the process, each step is yielding a specific value.

	Scoping	Sourcing	Selecting	Negotiating	Managing	Measuring	Focusing
Savings		✓	✓	✓ ✓			
Cost Avoidance	✓ ✓			✓	✓ ✓	✓	✓
Impact/Value	✓	✓ ✓	✓ ✓		✓ ✓	✓ ✓	✓ ✓
Criticity	High	High	Average	Low	High	High	Very High

1

Scoping

Scoping properly has direct impact on the overall cost of a project. Scope on the wrong problem and you spend a lot of money for nothing; scope on a subject too wide and you will pay for more than you actually needed or use the wrong consultants for part of the job. The primary lever associated with scoping is cost avoidance. The secondary lever will be impact and the value created. The consequences can be significant as scoping mistakes can lead to 50 to 100% extra costs and the value missed could have a significant opportunity cost.

Example: You have decided to screen potential acquisitions, identify the best fit for your company, approach the target, negotiate the acquisition, and integrate the target. From a scoping standpoint, the temptation can be high to write an RFP that will encompass all these steps. However, you may want to use a consulting firm for the first step, do the second one internally, use a bank for steps three and four, and engage another consultant for the integration.

2

Sourcing

Sourcing the right consultants for your project is key to making sure you get the right value at the end of the process. Besides, organizing a relevant competition will ensure that you get competitive proposals and will provide some leverage for negotiation. The primary lever will be savings (vs. a noncompetitive process), and the secondary lever will be linked to the impact of the project and the value your consultants will be able to create. The consequences associated with this step are high. Without proper sourcing and relevant competition, you will lack proper leverage. You also risk working with the wrong consultants. From our experience, we've found that setting up a relevant competition can yield a 30 to 50% savings. Obviously, working with the wrong consultants can significantly reduce the impact of the project. As a working assumption, a 25 to 50% impact difference on the end results seems reasonable.

Example: A telecommunications company works primarily with the same three consulting firms. The company may have the impression that it has created a healthy competition. But for this competition to be perceived as genuine, all three consulting firms have to win regularly. Not all work can go to the same incumbent. What would be the most logical strategy for the three competitors? Price low and get maybe half of the projects or price high and lose two-thirds of the projects? As the telecommunications company has involuntarily created a virtual oligopoly, the latter strategy is indeed the most profitable—for the consultants.

3 Selecting and Negotiating

The selection and negotiation steps of the process yield quite similar benefits. On the one hand, you make sure that you are working with the partner that will be right for your project. On the other hand, you negotiate terms and conditions that will contribute to additional savings. The primary lever will be savings (vs. a noncompetitive process), and the secondary lever will be linked to the impact your consultants will be able to create. The consequence of this step is directly linked to the sourcing one. The savings of pure negotiation are often ranging between 5 and 15% while the optimization of the scope and re-allocation of resources from one activity to another can also provide 5 to 10% extra impact for the project.

Example: An insurance company has an urgent project to launch; they have looked internally and don't have the resources. They will have to use some consultants for both expertise and workforce. If they have only bilateral discussions with one consulting firm and convey the urgency of the need during one of the exchanges, what do you think will be the impact on the consultant's pricing? If the company has at least one relevant alternative, will it be the same outcome?

4

Managing

To assess the importance of the managing step you can simply picture an internal project lacking project management, governance, or support from key stakeholders. What are the odds of getting something meaningful achieved? Pretty low, it would seem. The same is true for consulting projects. Without proper management, you will be at risk. The primary lever will be cost avoidance as you might end up funding a project for nothing and the secondary lever will be linked to the value the project will be able to create. Not managing the project properly can waste up to 100% of the project cost (not accounting for the wasted time from your teams) and you could fail to get the impact you were expecting from the project itself.

Example: An industrial company decides to launch a global benchmark on the performance of its operations. The project is very ambitious, comparing all sites among them, leveraging various benchmarking data, and sizing drivers. The objective is to identify the profile of the perfect unit and to derive change plans with efficiency targets for all units. The project sponsor is the industrial director. Unfortunately, the industrial director gets a new job opportunity midway through the project and leaves the company. The new director does not want to have as his first signature project something he perceives as a cost optimization program. As there is no formal governance beyond the industrial director, the number of stakeholders supporting the project is limited. At the end of the day, the project continues its course but progressively loses momentum. At the end of the project, the recommendations are shelved, and the company barely recovers the cost of the project.

5

Measuring

There is only a limited number of companies managing the performance of their consultants. Indeed, there is only a handful of companies that have a consolidated view of how much they are spending and with whom. The primary lever for implementing a measurement of the performance will be opportunity loss on the impact of the project and the value that should have been created by the project, and the secondary lever will be cost avoidance as you might end up working with consultants more expensive than needed. The loss on the impact can be up to 25% to 50% of the project expected value, assuming the consultants you are working with are lacking some expertise but are still showing some degree of competence. Obviously, this could be more. To this, you can also add the over cost in case you end up working with overpriced consultants.

Example: A large retail bank in the US had decided to restructure its branches. The retail bank was organized by region. Since the top management had a good relationship with a top tier strategy consulting firm, they decided to use this firm for the organizational redesign. The firm was extremely competent on strategy for financial services but had little experience in organization and change. The company ended up paying a strategy consulting firm premium for organizational work that could have been done better by smaller specialized companies. Making matters worse, the consulting firm used this reference to sell similar projects in other areas of the bank. In the absence of a proper performance measurement, other executives were unaware of the average performance on the initial project.

6 Focusing

When looking back at how you used your budget the year before, there is always a moment where you realize that you should have allocated more to one area and less to another, and should definitely not have done some projects. Focusing effort on a limited number of impactful projects often yields a much greater value than stretching efforts across a large number of minor projects. The primary lever when focusing your efforts will be on the impact of the project, thus the value created. The secondary lever will be on cost avoidance by preventing investments on non-value creating projects. It can be difficult to assess what the impact can be as it relates to the quality of your demand management. However, assuming you can redirect 25% of funds to higher value project can be a good proxy.

Example: A CPG company was using a lot of consulting. However, the company had a very decentralized culture, and the departments managed budgets. Budgets had historically been higher in the manufacturing and communication departments. As a direct consequence, the company was lagging in other functions such as procurement and supply chain. Without a centralized view of how consulting was spent, the expected returns, and the consistency of the strategy, the company was simply investing year after year in the same areas

The value creation equation

There are many schools of thought regarding how value coming from consulting can be put into equations. Let's try to explore these schools of thought from the simplest to the most elaborate.

The simplest way to look at the value created is to consider the savings side of the equation. The value is what you were willing to pay for a given project minus the price you actually paid.

Therefore, if you were willing to pay 100 for a given project and ended up paying 80, you would have a perceived savings of 20.

Unfortunately, your willingness to pay is all relative as it is at times difficult to assess and might not be representative of the actual value of the service. You could, therefore, consider the value created using a more robust savings stick. Compare the actual cost to what you would have paid if you had selected one of the highest bidders (reference cost). You could refine this notion and take the average of a representative sample of proposals. Make sure in this case to consider the full cost, including bonuses and expenses.

If you paid 80 and the average full cost of the proposals was 90, you would consider a measured savings of 10.

Though this notion covers partially the impact of a good sourcing and a good selection/negotiation, it unfortunately does not address the value brought by a high-quality scoping exercise. If you buy more than you need, you are tapping into an infinite reservoir of cost avoidance. For instance, why would you purchase a market study covering the entire market when you only need one segment?

To use the previous example, if you saved 30 by properly scoping the project and optimizing resources utilization, plus 10 coming from the competition, you could consider to have an actual savings of 40.

THE VALUE CREATION EQUATIONS

What you think you saved (Perceived Savings)

Perceived Savings=Willingness to Pay – Price Paid

What you saved and can be measured (Measured Savings)

Measured Savings=Reference Cost –Actual Cost

What you actually saved (Actual Savings)

Actual Savings=(Reference Cost – Actual Cost) + Cost Avoidance

What you could theoretically get (Theoretical Value)

Theoretical Value= Expected Returns + Actual Savings

Expected Return* Reference Cost + (Reference Cost – Actual Cost) + Cost Avoidance

What you actually get (Actual Value)

Actual Value= Captured Value+ Actual Savigs

Impact * (Expected Return * Reference Cost)+ (Reference Cost – Actual Cost)+ Cost Avoidance

However, you probably would not have launched the project if it was not creating an attractive theoretical value for your company. Depending on your company and your propensity to use consulting, the expected returns can be quite high. At a minimum, the costs have to be paid back within a year. By experience, the expected returns are usually at a minimum three times the cost.

Consider a cost corresponding, for instance, to one year of savings. The net present value over ten years with a 10% discount rate is around seven times the costs engaged. The expected return in this example would be 7. So if you were anticipating a reference cost of 90, ended up with an actual cost of 80, and had avoided 30 through a smart scoping, you would have in captured a theoretical value of 7*90+(90-80)+30 = 670. Quite a step change vs. the sole savings.

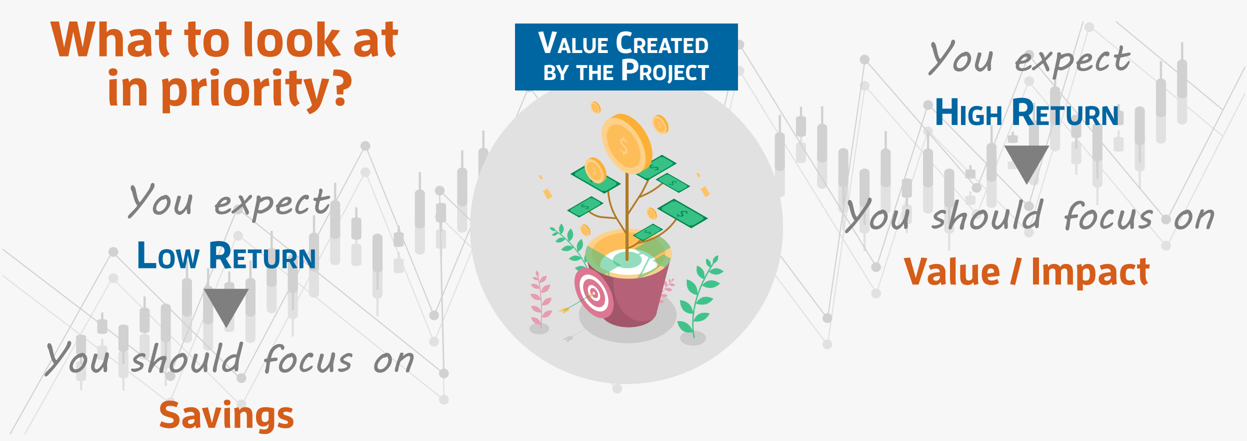
Interestingly, you can see that if your expected returns are greater than three, the first part of the equation will always trump the second one. The only caveat to this reasoning is that, depending on the projects and the quality of the providers you select, you may not achieve the full expected return. The correction factor can be referred to as the impact. Experience shows that the impact can indeed be quite heterogeneous.

Going back to the previous example, if for various reasons the consulting project captures only half of the expected value, we can consider an impact of 0.5 to be applied to the theoretical 630. You would have a captured value of 315 to be added to the actual savings of 40. The actual value becomes 355.

"You don't get results by focusing on results. You get results by focusing on the actions that produce results."

Mike Hawkins

There are three major factors in this equation. Demand management will determine the expected returns. Quality of sourcing and negotiations will drive the savings. The efforts of the scoping will pay off through cost avoidance, while selecting the right consultants and managing them properly will drive the impact. Unless the expected returns from the project are quite low, the impact will be the determining factor.



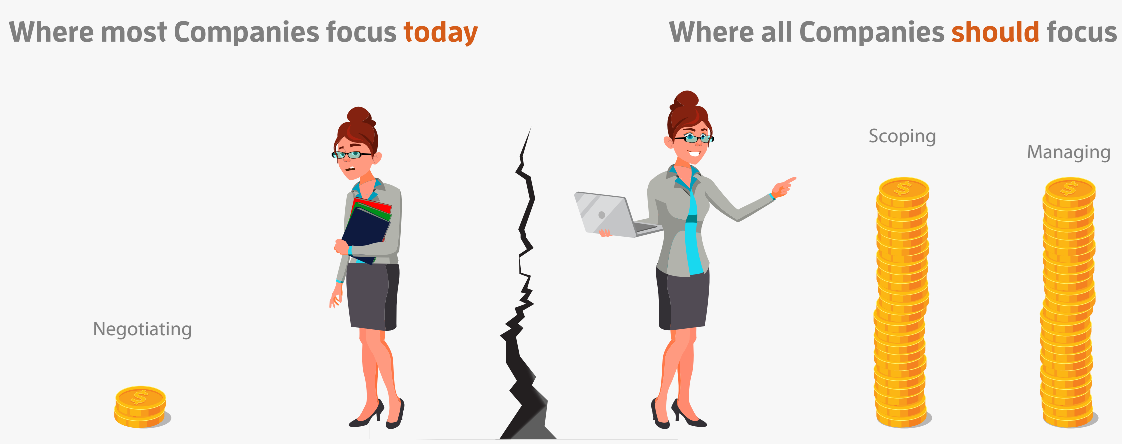
Where to focus the efforts

Where the focus is today

Many organizations are leaving consulting procurement to the executives needing the services. In this case, the executives usually focus on scoping the project and managing it. The sourcing and negotiation parts are often overlooked as the organization manages a critical mass large enough. When organizations leverage the procurement teams, they tend to address consulting procurement as an indirect purchase among others. As such, the procurement organization is often looking at savings as a measure of performance. The focus is therefore on organizing a proper competition and negotiating lower prices at the back end of the process.

Where it should be

In the same way that mature procurement organizations for direct purchases are looking at the total cost of ownership, mature consulting procurement organizations are now looking at the entire value equation. This will drive a much higher focus on the impact and the value created. Those organizations are also implementing some form of demand management to make sure they invest where the most value will be created. Consequently, the focus is placed on selecting the right projects, sourcing the right consultants and managing them during the project to maximize the impact achieved. This does not prevent them from taking care of the savings side of the equation but will ensure an optimum result.



"My success, part of it certainly, is that I have focused in on a few things."
Bill Gates

If you need to remember just one simple rule when it comes to the value created through the sourcing of consulting projects, remember this: Unless the expected impact is low, the value created by the project itself will most of the time outweigh the savings realized through the sourcing. It is particularly true when you look at one specific project.

If you are using consulting on a regular basis and are managing a portfolio of providers, many other actions can yield substantial value. These actions will range from implementing a performance management system to ensuring full alignment between your priorities and your consulting investments.

5 takeaways for busy executives

1. Value in consulting is a combination of savings, cost avoidance, and impact (ROI).
2. Each step in the process provides a different value.
3. For projects with low expected returns, you should focus on savings.
4. For a project with high expected returns, you should focus on impact.
5. Companies tend to spend too much time on negotiations and not enough on scoping and managing their projects.

Discover

Consulting Quest Sourcing

What we do

We help you with all your consulting sourcing needs.

We provide sourcing, consulting and digital solutions to control your costs, accelerate your strategy and maximize the value you create from your Consulting Spend. Our approach is data-driven and executed by dedicated advisors whose profiles are a blend of executives, consultants, and procurement experts.

Why it matters

Consulting Spend can represent up to 1% of Companies Turnover. Yet only 7% of executives feel properly equipped when it comes to buying consulting services. Using best practices could lead in average to 30% of savings. Those could help the bottom line of fuel additional projects to create more value.

All conditions are gathered for clients to disrupt the way consulting is procured. Those who dare will capture tremendous value. We are here to help in this journey.

How we help our clients

Sourcing

We partner with clients throughout the entire consulting Sourcing Process. Our team of consulting procurement experts provides a white glove service to find and select the right consultants within the target budget

Consulting

We help clients to manage their consulting category, reduce overall costs, accelerate strategy execution and implement best in class processes increasing the maturity of their consulting procurement

Digital

We offer a full range of solutions to help companies easily manage demand, source consultants, measure their performance and manage the consulting category while reducing costs and maximizing value

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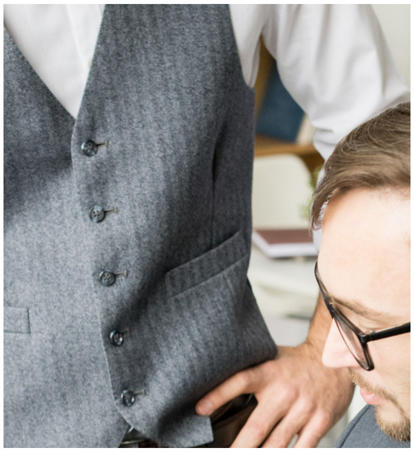

Diagnosing your consulting procurement maturity

Avril 2020

Consulting Procurement Organizations should aim to reach a high level of maturity, where the team is using best-in-class practices and brings significant efficiency gains for the Procurement group and company as a whole.

Successfully managing the consulting sourcing process for Consulting Services

May 2020

Review the main steps in the process of managing the sourcing of Consulting projects, from defining the needs, formalizing all the elements in the RFP, assessing the written proposals, getting closer to selecting the best provider, managing and terminating contracts?

Scanning your Consulting Spend for Performance

July 2020

Explore how companies that are managing a significant number of Consulting projects can professionalize the management of their Consulting Spend and capture quick gains by implementing a simple set of actions.

"

Don't tell me where your priorities are. Show me where you spend your money and ***I'll tell you what they are***

-James W. Frick-


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