

Viewpoint, 1 March 2001

Money for something

Paying consultants on a success-fee basis for e-procurement projects benefits them and the buyer, argues Gordon Parker

E-procurement provides fertile ground for consultants, as many organisations need help with the concept, technology and implementation. But e-procurement can also be expensive and achieve very little. Therefore, to keep the costs under control, consultants should link their fee to results.

The recent article by David Hewitt and Ray Cobbett offered a useful appraisal of the market for engaging purchasing consultants on a "no savings, no fee" basis to cut prices. However, this approach does not go far enough. There is more to procurement than just price. And there is more to procurement consultancy than achieving price savings.

From maintenance, repairs and operations buying to supply chain management, purchasing is an immense subject and expertise is not the preserve of any one organisation or individual. Many purchasers have the confidence to recognise that they cannot be experts in everything.

The rise of "no savings, no fee" consultancy reflects the need for importing expertise on the basis of it actually delivering net savings. But this results-based methodology needs to go further and address how goods and services are purchased. Reducing total acquisition costs is likely to provide substantial savings, especially when process re-engineering reduces administrative overheads and maverick spending, as well as providing relevant management information.

There is little reason why consultants' advice should not be paid for on a results basis. The fee should be linked to implementation of particular recommendations and perhaps to the savings that they achieve.

Of course, providing consultancy on a success-fee basis means a substantial transfer of risk to the consultants. This needs to be balanced by a top-level commitment on the part of the client and requires a certain measure of trust and confidence on both sides. By moving to a results-fee basis, the client and consultant are sharing the risks and rewards in partnership. Confronting the issues of "diagnosis" and implementing the "cure" encourages a realistic appraisal of what is involved and what can be achieved to obtain business benefit before costs are incurred.

Consultants who balk at being paid on results achieved do not believe in their own recommendations. It changes their mindset so that they identify what will work and how to implement the change cost-effectively. It also puts an onus on the consultant to be persuasive - if they cannot make the case, it will not happen.

Such a model is particularly appropriate to e-procurement consultancy, since much of the groundwork that is needed involves process and culture change. Implementing e-procurement properly is a major exercise and many fundamental changes will have to be made. Using consultants to support this could be costly and carries no guarantee of success. A number of organisations have already found that they have actually acquired little more than expensive platforms for ordering stationery.

To avoid this, consultants should charge on results. They should link their fee to factors such as take-up by users, as well as savings. If they cannot quantify the benefits of using a new system, measure those benefits and charge accordingly, then the buyer should seriously question whether they are confident of receiving a worthwhile outcome.

Having worked on a results basis for the past eight years, I am aware of the pitfalls in this type of charging system, which there will certainly be in an area as immature as e-procurement. But if e-procurement is to avoid the risk of promising much, delivering little and costing a fortune, then this is surely the right way to proceed.

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