Background

CASME RoundTable meetings on professional services were held in Frankfurt, London, New Jersey, Melbourne, Sao Paulo and Shanghai during a period from March 2019 to November 2019. The following main topics were discussed:

- Strategy and scope
- Managing the supply base
- Contracts and pricing
- Bidding and negotiation processes
- Measuring value and performance
- Future trends.

This Digest provides the key points, good practices and insight into future trends identified by CASME members around the world. Full notes from each meeting are available in the subscriber-only Resource Centre.

Strategy and scope

- Professional services are typically required for specific projects for which the company lacks the relevant expertise internally, or when the requirements are not within the company's core competencies. The scope of professional services typically includes:
  - Management, strategic and operational consulting
  - Category-specific professional services, such as legal, HR, logistics and IT
  - Financial, accounting and tax services
  - Business process outsourcing (BPO).

- Professional services are often purchased without Procurement's involvement until the approval of purchase orders (POs) or contracts is required. Approaches to address this issue include:
  - Approaching the stakeholders to offer Procurement's services, support, assistance and advice, and educate them regarding the purchasing process
  - Collaborating and exchanging technical knowledge and experience with the stakeholders early in the sourcing process to establish mutual understanding
  - Providing expertise and advice in the initial stages of projects regarding the supply market, as well as benchmarking data and best practices to assist in the supplier selection process
  - Engaging with senior executives to obtain top-down support for the enforcement of a policy mandating Procurement's involvement in projects with spend above a defined threshold; and encouraging them to lead by example.

- Procurement's role and the value it provides in the professional services category include:
  - Developing the professional services strategy through a collaborative process between Procurement, the business units and the stakeholders
  - Establishing preferred supplier lists (PSLs) of pre-approved professional services providers for different categories
  - Consolidating and aligning the procurement of professional services across the business, to co-ordinate requirements, avoid duplication and optimise volume leverage for negotiating cost reductions
  - Conducting the sourcing, negotiating, contracting and supplier onboarding processes on behalf of the stakeholders.

Evaluating and managing the supply base

- Many organisations are using tier-one service providers, with executive sponsorship. These include:
  - The ‘Big Four’ professional services companies, Deloitte, Ernst & Young (EY), KPMG and PricewaterhouseCoopers (PwC)

- Procurement can assist in the decision whether to use a large professional services company or if an independent specialist is most suitable for specific projects by:
  - Understanding the supply market and the value different service providers can offer to the organisation
  - Challenging the stakeholders' perception that it is necessary to engage a large professional services company with the best reputation in the market
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- Encouraging the stakeholders to consider the service providers that are the most suitable in terms of cultural and strategic alignment with the company.
- Many companies have established PSLs comprised of approved professional services providers with which the contractual terms and conditions (T&Cs) and rates have already been negotiated and/or a master service agreement (MSA) is in place. The lists, or panels, of preferred suppliers are usually based on the stakeholders' preferences and Procurement's recommendations. There may be separate PSLs for tier-one and tier-two service providers, to ensure that both generalist and specialist requirements are covered.

Contracts and pricing

- The engagement of professional services represents a high level of spend for most companies. To manage costs, control spend and scope, and ensure that the company obtains the best value for money, it is essential to apply effective pricing models, and to ensure that stakeholders adequately define requirements in the statement of work (SOW).
- The pricing models that are being applied include:
  - Time and materials, suitable for projects for which the scope is not clearly defined or may be flexible, with stipulated deadlines for completion to avoid overpayment
  - A fixed fee model, for when the scope is clearly defined, based on the service provider’s projection of the types of professionals and the number of hours required to complete the project
  - Outcome-based remuneration, appropriate for projects for which the project scope and timescale are clearly defined, to incentivise the service provider to deliver successful results
  - Rate cards based on the daily or hourly rates for the different levels of professional expertise of the personnel allocated to the client company's account.
- Approaches for managing costs and scope include
  - Incorporating within requests for proposals (RFPs) the requirement for the service providers to supply a cost breakdown using a dedicated spreadsheet
  - Developing a template of specific tasks for the service providers to supply quotes for the number of hours required to complete each task, and the associated costs
  - Conducting benchmarking using both internal and external data
  - Applying limits for the number of change orders that can be requested by stakeholders
  - Conducting frequent progress reviews of projects against the agreed milestones and contractual commitments, to manage compliance with the SOW and avoid scope creep.
- The MSAs that are being applied with professional services providers may be implemented for three years before being re-negotiated; and may be extended for additional one or two years. A single, standard global MSA template may be established, with appendices included to cover variations in rates and legislation at the local level.
- Important clauses for inclusion in professional services contracts and MSAs address the:
  - Scope, timing and deliverables
  - T&Cs of the engagement and contract termination
  - Rates, tiered according to the levels of seniority, expertise and experience of the allocated team
  - Provision of replacement key personnel with equivalent skills and expertise, at no additional cost to the client company
  - Legal accountability, liability and indemnity stipulations
  - Confidentiality, intellectual property (IP) and data security requirements
  - Application of a non-disclosure agreement (NDA)
  - Corporate social responsibility (CSR) and sustainability requirements
  - Approval process for change orders
  - Issue escalation process
  - Travel expenses policy
  - Payment terms.
- Payment terms may be reduced to assist small supplier companies and freelancers with their cash flow. This may involve a supplier factoring, or supplier financing arrangement, in which the service providers are paid sooner by a third party, usually a bank, for which the client company receives a discount.
- A milestone payment scheme may be agreed, in which the service provider is paid on completion of pre-defined deliverables, and may be paid bonuses for early completion. Projects may be separated into two phases, with the initial analysis and strategy development phase performed for an agreed price, and an execution phase, for which the company pays daily or hourly rates for the work involved in completing the project.
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Bidding and negotiation processes

- Important criteria for inclusion in RFPs and supplier selection evaluations include the:
  - Amount of work that will be outsourced and/or offshored by the service provider to fulfil the company's requirements, as well as the associated margins
  - Technical competencies of the service providers
  - Number and level of expertise of the personnel to be assigned to the project
  - Service provider's experience with similar projects
  - Cultural compatibility and strategic alignment between the client and supplier companies
  - Extent of the service providers' investment in the relationship with the company
  - Data collation and cleansing processes and tools that will be used during the project
  - Technology that will be used to deliver the project or service, and the proportion of the total cost this represents.

- It is important to clearly define with the stakeholders the criteria, scoring and weighting to be used to evaluate the potential suppliers before the bidding process is initiated. Procurement should establish the use of scorecards to ensure that a fair and objective bidding process is conducted.

- The requirements are defined within a SOW, as well as the scope of the project, the expected outcomes and the delivery timescale. The SOWs are usually developed by the stakeholders after the RFP process has been completed and the requirements defined. Procurement contributes by:
  - Encouraging the stakeholders to involve Procurement early in projects, in order to conduct requests for information (RFIs) to gather intelligence regarding the capabilities of the service providers
  - Analysing the project requirements within the SOW, to determine what is essential and ‘nice-to-have’
  - Refining the SOWs to ensure that they accurately reflect the stakeholders' requirements
  - Providing standardised templates to ensure that the SOWs contain the correct details, such as the expectations for project deliverables, pricing and timescale, and the risk management requirements.

- Negotiations for professional services can be hindered by existing relationships between the service providers and internal stakeholders, particularly if these are between the senior executives of the client and supplier companies. To overcome the selection of suppliers based on the personal preferences of the stakeholders, Procurement needs to:
  - Gather as much information and data as possible to present to the stakeholders and encourage their objective evaluation of alternative options
  - Ensure that Procurement and the stakeholders are aligned and united, to prevent the service providers taking advantage of inconsistencies to gain control of the negotiations
  - Establish a structured governance process for projects, with the roles and responsibilities of the stakeholders and the service provider clearly defined
  - Ensure that all potential service providers receive the same type and amount of communication.

Measuring value and performance

- The primary criteria for measuring the performance of professional services are delivery on time, within the budget and to the required standard of quality. Approaches for measuring value and performance include:
  - Applying key performance indicators (KPIs) focused on service delivery and account management
  - Conducting post-project stakeholder satisfaction surveys
  - Using the net promoter score (NPS) method to measure the stakeholders' customer experience
  - Requesting the service providers to perform post-project self-assessments
  - Procurement and the stakeholders discussing the results of projects and feedback surveys with the service providers during quarterly business review (QBR) and annual performance meetings.

- The delivery of added value and savings by professional services providers is being measured in terms of the cost avoidance achieved during projects, as well as the cost savings generated through increased efficiencies recommended by the service providers.

- Contract management software such as Decideware and Zycus can be used to apply and monitor performance metrics that are appropriate for specific projects and categories.
Future trends

- Artificial intelligence (AI), big data, robotic process automation (RPA) and blockchain technology are expected to significantly impact the selection, negotiation and implementation processes that are applied by Procurement in the engagement of professional services.

- The market dominance by the large, well-established professional services companies will be challenged by increased competition from smaller independent service providers, due to the new IT platforms and digital capabilities they can offer, as well as the specialist expertise that differentiates them from the other suppliers in the market.

- The large professional services companies may continue to acquire the small, specialist providers to expand their capabilities, but the availability and use of freelancers are expected to increase.

- Companies may increase their in-house capabilities by developing an internal consultancy function, and employing permanent personnel with expertise in specific categories and disciplines.

- The use of offshore professional services providers will only be undertaken on a selective basis, due to the differences in time zones, languages and cultures.

Resource Centre links

The following are links to the full meeting notes for each region:

- Asia  Shanghai
- Australasia  Melbourne
- Europe  Frankfurt
- Europe  London
- Latin America  Sao Paulo
- North America  New Jersey

Further Information

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Important

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