

4 Tips and 3 Pitfalls to Avoid when Sourcing Professional Services

– a Little Planning can Save Companies Millions

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The process of procuring services for your organization has unique differences as compared to the processes used for procuring tangible goods. To begin, you will need to review how your company currently purchases services, which may vary from service to service and provider to provider. Frequently, additional or hidden expenses will be “bundled” into the overall price offering and tied to various definitions and loosely identified terms often providing very little visibility into what you and your company is really paying for.

As you begin the process of searching for new or alternative service providers, the following tips and insight will help start you off on the right track and help you avoid common pitfalls when sourcing services.

TIPS FOR SERVICES SOURCING

When starting a new sourcing project for professional service providers, consider the following tips to ensure a successful outcome.



#1: Understand how and from whom services are being provided today – Many companies, especially those with numerous locations, have a limited view of all the supplier relationships, agreements, and pricing that are in place for the exact same services throughout their organization. Often there are multiple companies providing the same type of service but at varying levels and standards. Understanding how each area of the company works with the providers of the services you are looking for is a critical first step to successfully developing a strategy that will ultimately benefit the entire organization. A good first step for gathering this information is to run an internal survey. Many times what is happening at remote locations is not what the corporate office was anticipating.

#2: Develop the strategy with an end result in mind – Once you begin to uncover where, how and why your services are provided today it isn’t unusual to find that you have a vast variety of contracts, terms and conditions, scopes of work, pricing and suppliers with which you are dealing. Instead of trying to rework language and deliverables you desire into each supplier’s business model or existing contract, this is the ideal time for you to determine your preferred end result for your new sourcing project.

A simple example might be how and where you want to be invoiced. Having a clear end result documented and available to the vendor community early in the process will help you receive the details you require in order to make an informed decision later on. Determine what data you will need to make the best decision for your company. Staging your projects with this in mind up front will save you many hours in the end.



#3: Define Additional Expenses – It is not uncommon for almost every vendor to have a price list of “additional services” that fall outside of what would be considered the normal course of business for the services provided. It is very important that you require every vendor you engage with to provide you a complete list of their fees and sign off on the fact that they understand that any fee not listed will not be honored as part of any new contract.

#4: Define the “upcharge” – Upcharges are one of the great mysteries in dealing with service provider companies. Often, invoices are issued with nothing more than one line item showing the weekly, monthly or annual fee that is being charged. Many of these upcharges will be for services that you would normally expect from any vendor in the name of account management or services. By requesting the vendors to break these charges into smaller, more detailed components, it will be easier for you to determine what you are paying for. More importantly, this will also give you a stronger foundation from which to negotiate with your preferred vendor.

UNRAVEL THE “BUNDLE”

Most bundles are designed and presented in a way to suggest the service provider is saving you money. The danger is when that bundle is actually being used to hide fees. As quoted in the *Harvard Business Review*, Anthony K. Tjan, CEO, Managing Partner and Founder of the venture capital firm Cue Ball, outlines the advantages of bundling by stating “unbundling or a la carte pricing benefits the buyer and packaged or bundled deals give the advantage to the seller.” He goes on to explain “unbundled pricing creates transparency and allows you to pick exactly the options you want. Most bundles make margin in giving you some of the things you want, but also some of the things that you will rarely use.”

Let’s take a look at some of the disadvantages when taking the “bundled” approach to pricing for services you might contract for.

#1: Unknown charges – One of the most significant problems with bundles is that you never really know exactly what you’re paying for. Vendors often state that the benefit of the bundle is that you get discounts for buying more features and services together at the same time. In reality, a change to any aspect of your bundle puts you at the mercy of your vendor. If they do accept a change, it is almost impossible to decipher if the change improved your overall pricing because of the lack of detail on your invoice. Aspects of your bundle that could save you money due to vendor improvements or process changes are difficult to recognize due to the lack of visibility into what it is you are paying for in the first place.

#2: Comparing vendors – As inevitably happens in the sourcing world, the time will come when vendor offerings need to be compared against the market to ensure competitive pricing. Bundles make this difficult if not impossible to do because of the lack of transparency into what is being paid for. Without these details there is no visibility into where the incumbent supplier is more expensive or less expensive than other vendors in the market, making your negotiations on those pieces of your service pie almost impossible.



#3: Multi-Award issues – Not every service oriented procurement project will lend itself to being awarded to more than one vendor, but you want to keep that option available. Without the breakdown of what is being paid for in a typical service “bundle,” the ability to award various aspects of service to more than one vendor, and potentially achieving greater savings, becomes extremely difficult. Whether or not multiple vendors are desired, having detailed visibility into the pricing for each piece of your bundle is an important decision-making tool for future use.

THE GROWTH OF SERVICES SOURCING

Professional services represent one of the fastest growing procurement areas for thousands of companies. The reason for this growth includes reductions in staff, efficiencies through outsourcing non-core competencies such as IT, and cost reductions for service on demand versus full time internal resources.

SafeSourcing has completed multiple professional services sourcing events resulting in the following overall statistics:

Number of Service Providers Invited	5 to 8
Average Suppliers Participating	6
Project Timeframe	< 30 Days
Average Savings	24%

Popular services targeted for new procurement projects include:

- Employee Automobile Reimbursement Plan
- Accounts Payable Recovery
- Event Planning Services by Location
- Armored Cars Services
- Audio Conferencing
- B2B Payment Solutions
- Background Screening Services
- Customer Satisfaction Program Provider
- Customer Satisfaction Program Provider
- Customer Statement
- Disaster Response (Emergency Cleanup)
- Event Services
- Facilities Asset Management
- Temp Labor
- Jet Charters
- Legal Services
- Managed Print Services
- Payroll Services
- Recycling
- Waste Management Services
- Lawn Care Services
- Snow Removal Services
- Environmental Services
- Construction Services (General Contractor)
- Logistics



A study by Clemente Communications Group that surveyed 250 companies found that nearly 60 percent of the companies surveyed cite an "inability to reduce costs and operating expenses" as the most important issue influencing their decision to source professional services. Forty-two (42) percent of companies responded that they are looking to hire outside firms to perform work previously done in-house.



Source: Consulting & Professional Services Firm Hiring By U.S. Middle-Market Companies, Clemente Communications Group, LLC (2009)

IN SUMMARY

When sourcing professional services, whether for new or existing categories, the process is the same:

- Understand what and how services are procured today
- Unbundle and demystify pricing
- Execute a defined plan

Services represent one of the highest savings opportunities a company can target. Understanding how to develop and execute each project is the key to maximizing savings. For more information and best practices on procuring services for your company, please contact a SafeSourcing Customer Service Representative at 866-623-9006 or marketing@safesourcing.com. We look forward to your comments.



SERVICES SOURCING CASE STUDY: TEMPORARY ADMINISTRATION LABOR

The Client:

A Fortune 500 company needed to consolidate and source their multimillion dollar temporary labor requirements spend across dozens of locations nationwide.

The Issues:

The current historical spend detail was extremely limited. The job descriptions were not consistent by location across the entire company. There was no insight into the basis of the charges as they were primarily bundled by all vendors. There were more than 125 vendors being used throughout the company.

The Process:

Step one was to consolidate and standardize a job description list with the help from Human Resources. Step two involved reducing the 125 vendors into a pool of 30 that would be invited to compete for the business. Step three entailed requiring all vendors to provide base rate by geography, national upcharge by job description and Unemployment tax and Worker's Compensation rates by state.

The Result:

The event run was an enormous success generating savings in excess of 30% resulting in millions of dollars saved, standardized job descriptions, consolidated vendor base and complete insight into how they were being charged on every invoice and a roll out plan as to how to move forward in order to capture the savings expeditiously.

ABOUT SAFESOURCING

SafeSourcing provides innovative eProcurement tools that can increase efficiency and improve profitability for our customers, and provide superior value for all stakeholders. In addition to providing information, tools and services, SafeSourcing proactively supports consumer safety and environmental standards throughout the global supply chain management process. To learn more, visit safesourcing.com or contact marketing@safesourcing.com , 866-623-9006.

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