

Dealing with external procurement consultants: sleeping with the enemy?

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The rise and spread of external procurement consultants poses a real challenge for many sales professionals. (By "external procurement consultant" we mean any third party who manages the procurement process on behalf of the client company. Examples include sourcing advisory firms such as Technology Partners International Inc. (TPI), sector-specific consultancies such as Turner & Townsend PLC and the specialist divisions within global consultancies such as Accenture Ltd.) The consultants are seen as blocking direct client access and limiting sellers' influence over the specification. But the biggest issue for many organizations is how their win rate is unfavorably impacted, as the bid manager from a global information technology company explains: "In the last year I have faced third-party consultants in eight of the 10 deals I have worked on. And we have lost all eight. These were huge deals, worth between \$250 million to \$400 million U.S. dollars."

The sales director from a global facilities management company shares this frustration: "We have won zero out of five opportunities because traditional methods of relationship building don't work. None of these consultants wants to be your friend. None of the people I met want to get close to you." It's a whole new world of selling, and many organizations are clearly struggling to adapt.

What strategies work?

In the first-ever study to look at what successful organizations do differently, Huthwaite International conducted 82 in-depth interviews with directors of leading sales organizations from around the globe. These interviews gave a deep, rich insight into 262 case study examples and allowed Huthwaite researchers to identify the critical success factors for dealing with procurement consultants. Due to the research's sensitive nature the interviewees must remain anonymous, but it was a true representation of global selling organizations, with 63 percent of participating companies having annual revenues greater than \$5 billion. Huthwaite's research team also interviewed senior directors from leading procurement consultancies to get the view from the other side.



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A steep learning curve

Rather than blaming the external consultant for inadequate selling, successful individuals have changed their approach. Over time and up a very steep, expensive learning curve, they have identified the strategies for winning business. Until now those success stories were rarely shared outside their organization and simply remained as pockets of best practice. What follows is an overview of those success factors and the real-world strategies that will help you

win business in this new environment.

Success factor 1: early relationship development with client executives

Large-scale opportunities are usually signaled long before the client hires an external procurement consultant. At this time the ultimate goal, as explained by Bernard Quancard, president and chief executive officer of the Strategic Account Management Association, is “to convince the customer to remove the bidding process entirely.” However, in all 262 case studies, there was just one example where a salesperson (the incumbent) achieved this. If you can’t

convince the customer to entirely eliminate the consultant, what can you do? You must advance your competitive position *before* the compelling event. When bidding for new business the successful organizations identified and pursued the relevant client relationships long before the consultant was involved and enjoyed significantly improved success rates, as exhibited in Figure 1.

Creating executive relationships can be intensely difficult, but if you can make it work, you are already ahead of the process. With client access unhindered by the consultant, sellers are able to accurately understand the

needs behind the compelling event and, most importantly, influence the specification. So what goes wrong when the consultant becomes involved?

Success factor 2: Create executive access even when blocked

The chance of having access reduces immediately with the involvement of a third-party consultancy, and such access was blocked in an incredible 83.6 percent of the case study examples. To reinforce the message that client access is forbidden, many procurement consultancies insert draconian conditions into the request for proposal, such as: “Any contact with an employee of the client regarding the tender will result in disqualification.”

But in stark contrast to the above percentage, the procurement leaders interviewed for this research questioned why consultancies try to block access. Bill Huber, global director for procurement services at TPI, says, “A good adviser will ensure that the supplier has access to the key decision makers at the potential client.” Moreover, Tom Woodham, director of supply chain consulting at Crimson & Co., suggests, “Modern procurement best practice is to involve stakeholders in the supplier decision-making process.” However, if seller access to the key decision makers is part of “best-practice procurement,” why do consultants block it?

The fear factor to condition sellers

Threatening to disqualify suppliers if they talk to the client has a very powerful conditioning effect on their behavior. It softens them up for the process to come. A massive 68 percent of research participants made no contact outside the procurement process because they were so fearful of disqualification. When multimillion-dollar deals are at stake many sellers revert to following the rules and being scared of the process. Unsurprisingly the actual level of client executive contact has a huge effect on success rates, as exhibited by the suppliers bidding for new business in Figure 2. As shown, without prior

Figure 1. New-supplier success rates for early executive contact

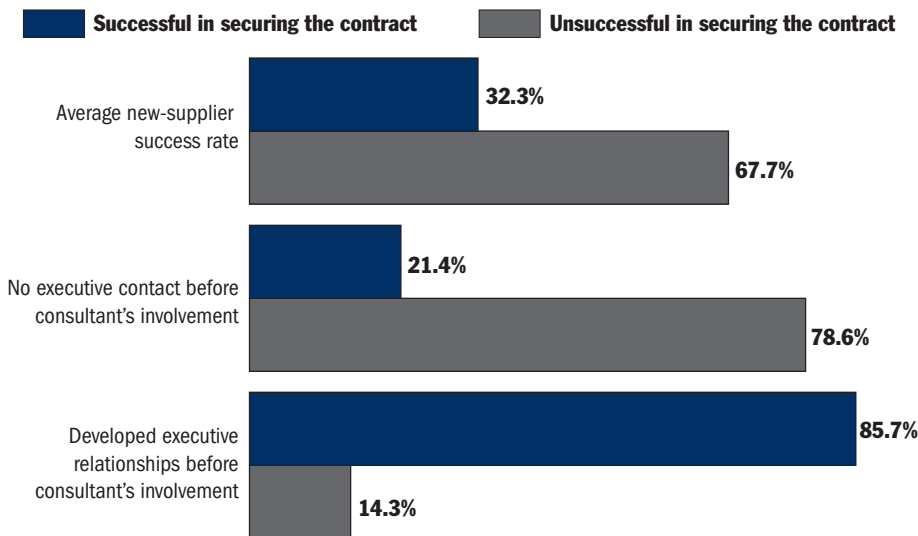
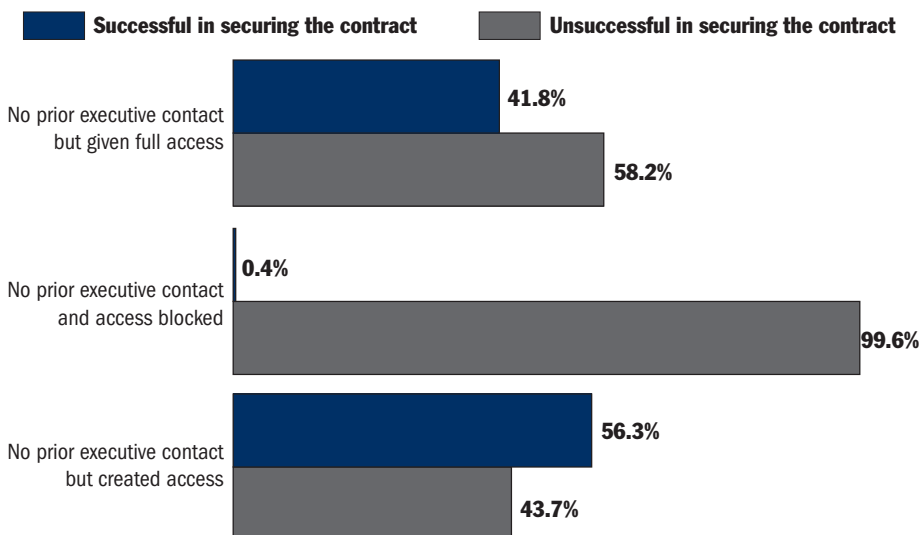


Figure 2. New-supplier success rates when tendering for new business



executive contact and where the external procurement consultant blocked access, the success rate is virtually zero.

When facing blocked access, the seller is both prevented from fully understanding the drivers behind the overt requirement and unable to introduce business value into the dialogue, let alone discuss it in a collaborative way with the right people in the client's organization. You will not succeed in this situation unless you change the rules.

Creating executive access

Those who won the business convinced the consultant to give them access, as the senior bid manager from a global management consultancy explains: "We say to the procurement consultant that previous experience shows that without access our success rate is near to zero, thus we are struggling to understand why we should respond to your RFP." In some cases the procurement consultant becomes involved because the client does not have time. A very successful approach is to use the threat of not bidding, and say, "We are about to invest two months of our time and \$200,000 on responding to your tender, but we cannot proceed with this opportunity unless we can meet the client executives to understand their needs and what is driving the RFP." While the exact wording varied, the strategy of "We need executive access to qualify

this opportunity" was consistent across every successful example—the threat of walking away is often sufficient to eliminate the blockage.

Perceived fairness

When challenged, virtually all consultants will say restricted access maintains the process's impartiality and fairness. However, it is important to recognize that the access blockage may benefit certain competitors, including those who pay no attention to it, exploit high-level executive relationships or have the benefit of incumbency. This certainly is not a level playing field, and sellers need to realize this.

Though consultants attempt to control suppliers with aggressive terms and conditions, nobody within this study was ever disqualified by breaking the rules in either private or public sector bids. Indeed, one consultant admitted that during his 28-year career, he had never disqualified anybody: "The rules are there to try and ensure consistency and fairness, but if somebody knows 'Joe down the pub,' then we cannot stop them talking to one another. Our role is not to disqualify suppliers based on technicalities but to garner the best solution for the client." Success depends upon how brave you are, and pushing back is a critical success factor—something Hewlett-Packard

Co. calls "tactful audacity."¹ Winners in this new world of procurement realize that slavishly following the process is a losing position.

Success factor 3: Influence the specification

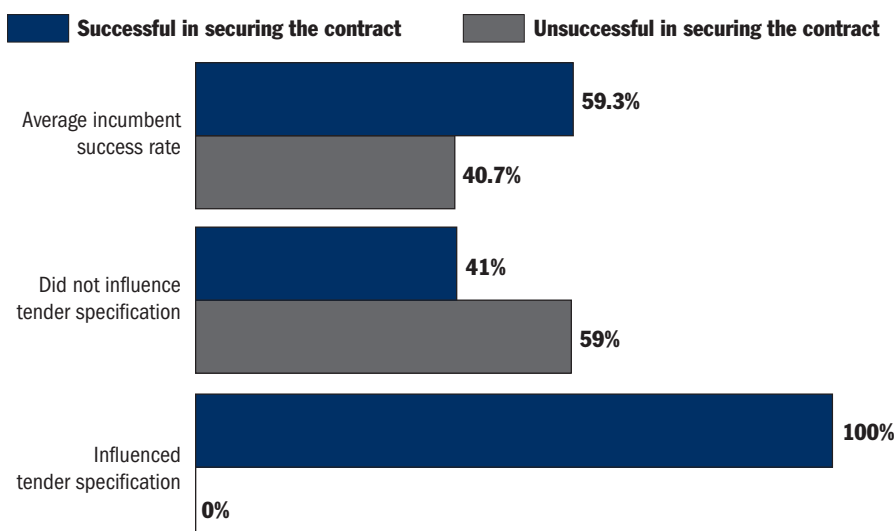
The best strategy is of course to influence the specification before it is written. But what if it's too late? The Dutch account manager from a worldwide IT consulting company shares his experience when bidding for a large piece of work: "We got the RFP from the consultant and said, 'Where has this level of detail come from?' This was somebody else's specification in the tender document. It smells of HP and looks like it came straight from their price book!" In this case HP had successfully influenced both the consultant and client and retained the contract. For the pursuers of new business the success rate for their incumbent competitors using an HP-style strategy is frighteningly displayed in Figure 3.

As perhaps expected, incumbents' failure to influence the specification damaged their success rates. But incredibly, those incumbents who managed to influence the RFP specification in their favor enjoyed 100 percent success. We can conclude that if you bid on a specification that has been influenced by the incumbent and you fail to influence it in return, your chances of success are zero. As one research participant says, "Bidding in this situation is a bit like poker. If you don't notice the sucker at the table, it's probably you!"

How do we influence the specification?

Huthwaite researchers uncovered several flawed attempts where organizations offered to "help with the specification" but did not have a clear, focused strategy behind the offer. The sales director of a professional services firm says, "It came to our attention that the client was going to tender for a piece of work, so we got in touch and said we'd really like to bounce some ideas around. But the client said, 'Oh,

Figure 3. Incumbent success rates when dealing with external consultants



there's no need to do that; we have already bounced enough ideas around, but we'll let you know when the tender comes out." Not surprisingly this firm failed dismally when it responded to the tender document.

If I can't influence the specification, what can I influence?

Within this study only the incumbent suppliers were successful in helping to write the specification *before* it was issued by the consultant. But the new suppliers who secured the business all managed to influence the decision criteria. The global sales director from an IT systems integrator provides an excellent case study example: "We won something that nobody in the world thought we were going to win, and we knocked HP and IBM out of the saddle. We looked at what the client and the third party had asked for, and we got them to consider something else—something that the competition didn't have. And we got them to put this formally in their evaluation criteria."

He goes on to say, "We did our homework. We had inside support and knew that the competition was suspected of flakiness by the client (who) thus overcompensated for this through the rigor of their procedures. The reason that we won is because we convinced TPI and then the client that we were

more flexible and would accept change in the implementation phase. We said we would make the necessary changes, then worry about getting paid for it." The global sales director turned the rigorous procedures and processes used by the competition into a disadvantage and repositioned implementation flexibility as a key decision guideline. But when the consultant acts as a barrier between you and the client, how should you effectively deal with this situation?

Success factor 4: Position the consultant as your partner, not your adversary

Many sales professionals naturally feel threatened when an external procurement consultant is brought in, and – coupled with the frustration around the fixed, rigid specification – this often creates a very adversarial atmosphere. Indeed, an amazing 82.6 percent of participants felt that the RFP was not an accurate reflection of the client's real needs. A bid manager from a global IT company shares his feelings: "In my view all procurement consultants are full of rubbish. They are crazy and very unrealistic with their expectations." While many organizations share his frustration, this was the organization that had lost eight huge bids in the past year alone. Understandably, the type of approach taken with the external consultant has a huge influence on the

success rates, as displayed by Figure 4.

What about an adversarial approach?

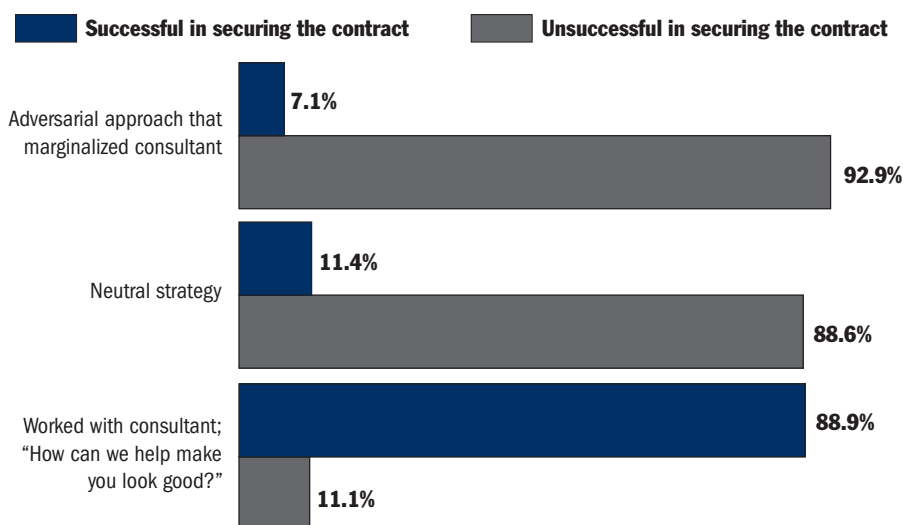
Some still believe this is the only way, as the sales director from an enterprise resource planning software company suggests: "Every time you have to marginalize the third party, or your wallet is in their hands." He recalls a large ERP implementation where he managed to see the vice president of finance, who was the executive sponsor, and was invited in before the client engaged the external consulting firm. Having developed this contact early on, the sales director explains why he felt that his team had established the right to marginalize the third party from all conversations: "The client never intended the consultant to be the primary contact, as the CEO had experienced a bad ERP implementation at a previous company and wanted to be 'all over this thing.'" While the sales director was successful on this occasion, it is clear that marginalizing the consultant can be an effective strategy only under very specific circumstances.

A new mind-set

The success rates for both new and incumbent suppliers are significantly higher (88.9 percent and 81.8 percent, respectively) when the selling organization is positioned to help the external procurement consultant succeed. The global sales director from an IT systems integrator explains:

"There is always a measure of an adversarial relationship with the external consultants, as they sit between you and the client. Initially TPI wasn't willing to give us access, and they waved their flag and said, 'You can only talk to us,' but we just told them no way. But we did it in a very diplomatic way. These guys are OK if you treat them diplomatically, but if you think of them as your adversary, you're going to get destroyed. To succeed, you want to know what their compelling events are. You want to know how you can make them succeed, how you can make them look good in the eyes of the client. One reason we won was that we approached the

Figure 4. New-supplier success rates with the type of approach taken



procurement consultant saying, 'How can we help you win? How can we make you look good in the eyes of the client?' We didn't use those precise phrases, but that's got to sit in your mind."

The global sales director's advice is to "find their agenda. Once you find their agenda, you will have to build a value proposition against their agenda. In other words, you have to help them see the additional value that you will furnish if you were selected and make it seem as if they have suggested it to the client. You must convince them that what you have is better for them and better for the client than what the competitors have."

Indeed, some sellers have also found that the consultant values what they can bring as a sounding board. One leading procurement consultant for the logistics industry admitted, "If we are designing an automated solution, we will run it by a provider before it comes to tender. We ask, 'Are we being mad here, or will this work?' So it adds a level of reality to our solution." But before you can help procurement consultants succeed, you must get inside their mind.

Success factor 5: Understand what the consultant is trying to accomplish

Many suppliers believe that external procurement consultants are remunerated solely on their delivered cost savings. There is good reason for procurement departments to propagate this idea. If the perception is maintained that they are interested only in price, then suppliers start irrationally discounting services to compete, as exhibited by the head of corporate account management at a mobile technology provider: "My approach with those guys is that we give more discounts. I realize it's not a strategy, but we have ended up having to cut our margins drastically to win the business."

Is it all about price?

While it is true certain consultancies receive a percentage of the realized savings, such as the consultancy Expense Reduction Analysts Inc., the majority of external consultants are hired due to the expertise they can bring and thus

negotiate their contracts to reflect this. A report by the Corporate Executive Board's Procurement Strategy Council identified that 92 percent of the big consultancies will accept only a fixed fee arrangement with clients.² So if it's not cost reduction, what are consultancies trying to achieve? One procurement consultant explains what really drives him: "I want my client to get the best result, but I want the process to work really, really well, which A) shows me in a good light, B) gets my client a good solution and C) ensures the supplier that ultimately gets selected actually does a bloody good job."

A procurement insider shared that some of the smaller players and one-man-band consulting firms do not have the negotiating power to get a fixed fee deal and thus are forced to accept a contract with a performance-based element. Therefore, salespeople must consider the size and type of the consultancy they deal with to try to understand what drives its behavior.


How do we put theory into practice?

A niche software provider in the United Kingdom eventually figured out how to work with external consultants. The company's sales manager says, "When we first got involved with procurement consultants, we had an attitude that they were a gatekeeper and were there to make our life difficult. The way we look at this now is that we have two customers. We say to the consultant, 'What is your objective? Forget the project for a second; what is it you are aiming to achieve?' We try to identify: What is important to them? What milestones are they working to? What are their deliverables? How is the customer going to deem their success? This has been critical in securing the last five deals."

Summary

Learning to play the game is a long, difficult process, and there is no rulebook for this. Organizations are learning from hard experience. But when you lose five or eight consecutive opportunities, you almost certainly need a new sales director, strategy or both. If

you want to leapfrog your competition, use the five success factors and real-world case studies to engender change in your organization. But change is difficult. Change is *very* difficult. Even the few respondents with a formalized strategy still struggle to change behavior within their organizations from the old-school adversarial approach. Ultimately success will not come from procedure or process but from a new mind-set. As one participant says, "You need good people, not rainmakers with tremendous egos. Too often your sales staff are pounding their chest about how wonderful they are, and that just doesn't work when dealing with a procurement consultant."

It is clear that unless you change your approach to engage early with client executives, create access when blocked and have a well-executed strategy for influencing the decision guidelines and consultants, then you will not succeed in this new environment. A final comment comes from the leader of a newly formed "specialist tender response team" at a global management consultancy who borrows from Sun Tzu's *The Art of War*: "We've been forced to adapt to survive and must keep our friends close but our enemies closer." 

¹Philip Squire, Michael Hurley and H. David Hennessey, "Winning large, complex sales opportunities at Hewlett-Packard Co.," *Velocity*®, Vol. 10, No. 4, Fall 2008.

²Procurement Strategy Council, Corporate Executive Board publications, 2007.

If you would value a deeper insight into the research findings, then please send a short e-mail to enquiries@huthwaite.co.uk with your preferred method of response.

Andy Moorhouse will give a presentation about best practices for dealing with external procurement consultants at SAMAs 45th Annual Conference in May in Hollywood, Fla. He is a research consultant at the consultancy Huthwaite International (www.huthwaite.co.uk) and can be reached at amoorhouse@huthwaite.co.uk or +44 (0) 1709-521-213. Michael Kleinman is owner of MPK Consulting Ltd. and a retired global sales director of Computer Sciences Corp. He can be reached at mpkconsulting@aol.com or +44 (0) 207-402-8000.

Additional resources

For more information on this subject in SAMAs library, the editors recommend: Andy Moorhouse, "On-demand webinar: strategies for combating reverse auctions," July 23, 2008, www.strategicaccounts.org; and Andy Moorhouse, "Playing the game: effective strategies for combating reverse auctions," *Velocity*®, Vol. 10, No. 2, Spring 2008, www.strategicaccounts.org.