Vendor/consultant fees

Value for money?

by Jon Hansen

In my recent travels presenting the Changing Face of Procurement conference series, a number of interesting trends began to emerge based on the feedback from the majority of those in attendance. Beside a growing cynicism in the "reports" that are published by organizations such as Aberdeen or Gartner, the most prevalent belief is that the cost for initiatives such as the recent $24 million spent in just 9 months by the federal government on AT Kearney are largely based on supporting the vendor's (or consultant's) sizeable infrastructure. In short, the costs are not a true reflection of the service, application or results vendors are providing. With a 75 to 85 percent rate of e-procurement initiative failure, it is hard to argue this point.

As new research material and case studies become available, including the following example provided by a Canadian company, it becomes more obvious that attempting to justify sizeable expenditures spanning several years carries little weight or credibility.

And while this example in and of itself only references the satisfaction of a basic functional requirement, it is the significant chasm between what was actually paid versus what was proposed that is striking.

A simple plan

A Canadian company approached their current vendor, PeopleSoft, to incorporate a PO tracking and reconciliation program into their existing ERP system. PeopleSoft quoted a starting price of $100K. The procurement department simultaneously investigated other options, in this instance a Microsoft program. Through the alternative venue, they acquired a basic template (including access to the code) for $50. With an expenditure of another $5K for customization, the company had a solution that met almost all of their requirements for a fraction of the price PeopleSoft quoted and were operational in a considerably shorter period of time.[1] As a result one has to wonder about PeopleSoft's "starting" $100K price tag. (As they move into the e-procurement arena, Microsoft's sizeable marketing clout and the likely impact on current cost models are also worth noting.)

One might argue that this example is simply a case of common sense being applied to fulfill a basic requirement, while in comparison an e-procurement transformation – largely a complex and time-consuming endeavour in which a fundamental change occurs in the way an organization operates – justifies a sizeable price tag. My September 2006 column in *Summit* magazine provides more information on technology-centric, big project transformation strategies.[2]

Referencing the government of Canada's 9-month, $24 million expenditure intended to contribute to achieving an estimated savings of $2.5 billion over a 5-year period through the complex endeavour of transforming federal procurement practices, one can see how the above position could be felt to be warranted. Unfortunately the savings target or return was anything but real. This leads to the important question, "What are vendor and consultant fee structures really based upon?" Given the high and increasingly publicized rate of procurement initiative failures, it a question that needs to be answered.

While the discrepancy between the costs of an initiative versus the poor results does not imply a deliberate attempt on the part of vendors to purposely deceive, what it does suggest is that there is a definite corollary between purported savings and the software vendor's own cost (operating) model. Relying on your vendors to calculate the ROI is quite frankly tantamount to asking the fox to take inventory of the hen house. Unless this cycle is ultimately broken (and all indications are pointing to this happening), the high rate of e-procurement initiative failures will persist, and the estimated expected savings will continue to significantly exceed actual savings.

In the example above, the company understood what needed to be done and the savings that could be achieved before soliciting the services of a vendor. This was because the company had faith in the expertise of their procurement department, and in particular their front line purchasing agents. In short, the company did not abdicate their responsibility for establishing the parameters (including projected savings) for a small but important requirement.

Far too often organizations make what many on the front lines of procurement consider an "ivory tower" decision by senior management, who commonly defer to the purported expertise of the chosen vendor or consultant. In my opinion, the federal government's contract with AT Kearney, as well as the preceding IBM program, are perfect examples. Such comments as "I would have done it differently had I been asked" represent the opinion of many front line buyers within the Canadian federal government.

An open and frank dialogue is necessary for a successful and cost effective initiative, something that may be difficult to achieve at this point in time for many organizations. However, and given the alternative, it is a course of action that needs to be taken.

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[1] Based on a report referenced in a May 2005 *Fortune Magazine* article, this is a growing trend as software written by companies for their own use grew from 31 percent of total investment in 1998 to 42 percent in 2003.

[2] http://www.summitconnects.com/Articles_Columns/PDF_Documents/200609_06.pdf