

MCA outlook

Are you on the list?

In an uncertain market, **Fiona Czerniawska**, director of the think tank at the Management Consultancies Association, worries for the firms that do and don't make it onto the preferred supplier list



About five years ago, I interviewed a partner from Booz Allen Hamilton who commented that he thought that the centralisation

and formalisation of the process of buying consulting would prove to be one of the industry's most disruptive trends in the future.

Of course, he was talking in the aftermath of the dotcom boom and in 2000, when organisations were taking a scythe to their expenditure on consultants. There was, if we're honest, a fair amount of fat in fee rates and procurement managers were able to negotiate sizeable discounts with firms desperate to maintain their utilisation levels. And that's what 'disruptive' seemed to mean: lower margins and less reliance on traditional relationships.

However, as we sit in the midst of another period of uncertainty, I've begun to wonder if the ultimate disruption will be far greater than we imagined. According to a survey of procurement managers, done by sourceforconsulting.com, the vast majority of big organisations are in the process of either tightening an existing preferred supplier lists or introducing one for the first time. Although some expenditure will always bypass these official routes, we're undoubtedly approaching a situation when the lion's share of expenditure gets channelled through a small number of firms.

There's a danger that the same firms appear on everyone's lists. That's clearly bad news for the firms that aren't on it, but I would argue that it may not be good for the firms that are – and that it's certainly not good for clients. Why? Because lack of competition may stifle innovation. It will put the chosen firms under immense pressure in capacity terms while leaving

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many others laying off staff on such a scale that it will damage the industry in the eyes of future recruits. It will push up prices for the few, while slashing those of the many. It may even mean that the chosen firms have to sub-contract substantial quantities of work, taking away their control over the quality of services delivered.

Economists would argue that the market will, like a capsized buoy, right itself over time. Procurement managers will realise that they get better deals and more specialists skills from non-preferred firms. And we are seeing some signs of this taking place: the managers taking on the role of consultancy procurement in 2008 are a very different breed to those who did it in 2003, whose experience came largely from cutting the costs of bulk commodities.

A new generation of procurement managers are more concerned to segment the consulting firms they deal with into large and small, or into strategy, accounting, operational and niche firms. Rather than populate their preferred supplier list with 10 firms in one category, they want to have one from each, thus giving their internal clients a range of options.

The issue therefore is how fast these changes take place. The implementation of preferred supplier lists is accelerating but the new-look procurement managers are still thin on the ground. In the short term, these lists are going to be very disruptive indeed. **CR**

Vital statistics

On the move

In 2004 an estimated 223,000 more people migrated to the UK than migrated abroad

Sources: Government statistics
www.statistics.gov.uk

