

‘The longer any assignment progresses without an agreement of the ultimate fee, the more negotiating power moves away from the buyer and the greater the risk of higher fees’

Buying in services from big accountancy firms doesn't have to be a minefield. John Stephens offers some helpful tips on how to get the best deal

Large accountancy firms dominate their sector in a way that few other professions are able to. Selling non-statutory services is big business for large accountancy firms, and can be risky for those procuring such services. So, how can finance directors and their teams – often tasked with the job of buying in services – avoid the risks?

Early commitment

Many of the problems that occur when buying in services are a result of rushed and ill-thought out decisions. The choice of provider is the buyer's key tool, and the early removal of competitive tension will work to the buyer disadvantage. Without appropriate planning, what may originally have been intended as an initial discussion with a potential provider, could turn into an ill-defined, open-ended and expensive engagement.

So, no matter how urgent the issue may be, the buyer must keep sight of the fact that the piece of work is the provider's commercial opportunity. That means never committing until enough is known about the suitability of the provider, the price of the service and the solution offered.

Provider selection

Employing a team that, on the surface looks capable of the task but is later found to be inexperienced, is easily the biggest risk for buyers. Teams should be selected and services should be procured via a competitive and objective process. Where there is significant spend, some time and procurement expertise available, an efficient tendering process will provide the best result. Make sure the process includes those from smaller accountancy firms too.

Many larger organisations with an ongoing need for services will have framework agreements in place. A framework agreement doesn't necessarily eliminate the need for competition in the selection process, but will reduce the effort required to find the right solution. This is because selection will be based on the differentiating factors relevant to the engagement, for example, price, people or plan, and not matters already dealt with in the framework agreement. A framework agreement does not however eliminate cost or execution risks.

Execution risks

Badly executed assignments are a constant source of concern for the client, even if the right provider has been chosen. A clear description or definition of the deliverables and how progress towards them should be measured is fundamental to the success of any assignment and will also help with the planning process on both sides.

However, the nature of some assignments can make defining outcomes up front difficult. It may be possible in these situations to split the project into two phases – a planning phase and an

execution phase. Specifying and measuring the deliverables for the second phase will be much easier than trying to firm up on such matters at the very start.

The price is right

If a framework agreement is in place, an agreed rate card will provide an understanding of price structures and assist in predicting end costs. However, the primary risk will always be the amount of time spent on the matter. Payment on a time-spent basis should be avoided, even with favourable hourly rates. Payments based on time spent reduce efficiency by rewarding providers that spend more hours on a project as distinct from progress towards objectives and significantly increases the risk of higher total costs.

Where a buyer must pay by the time spent, a better hourly rate deal can usually be achieved in the context of a specific piece of work, rather than was offered in the framework agreement. The key is for the buyer not to give the instruction until the the best deal is available.

Most importantly, prices should be fixed as much as possible and as early as possible. Providers may be unable to agree a price up front, perhaps owing to the variable nature and duration of certain types of work, but there may also be reluctance by the provider to make a commitment for fear of scaring off the client. The longer any assignment progresses without an agreement of the ultimate fee, the more the negotiating power moves away from the buyer and the greater the risk of higher fees. Furthermore, with regard to significant assignments, it is better to cap the fee based on deliverables. Where there is a shortfall in these deliverables or provider resources used the fee paid should be less.

A capped price is better, from a client perspective, than a fixed-price arrangement, where the price agreed at the outset must be paid, even if fewer resources are used than anticipated. With a fixed price, the buyer and the provider share the cost risk.

In summary, most problems can be anticipated and dealt with by aligning buyer and provider expectations in advance. Expectations are best matched and risk reduced by setting out all matters relating to the piece of work in a letter of engagement. By taking into account the risks detailed above it will be possible for the provider and the client to reach a successful outcome.

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