



HEALTHCARE
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**'Consultancy or Commodity?' - Special HCA Members' Debate
Proceedings of the meeting held on 28th November 2007 at the
Marriott Hotel, Waterloo**

Speakers:

Aline Beresford, Independent Market Research Consultant & HCA
Benchmarking Sub-Committee Chair

Colette Goldrick, External Affairs Director, Pfizer UK Ltd – *an in-house
communications perspective*

Emma Sergeant, Group Managing Director, UK, Ogilvy Healthworld – *a
perspective from a large multinational consultancy*

Sioban Shortt, Associate Director - Marketing EMEA, Bristol-Myers Squibb – *a
procurement perspective*

Karen Winterhalter, Managing Director, Onyx Health Ltd – *a small
independent consultancy perspective*

Chair:

Julia Cook, Principal, StepBack Healthcare and HCA Chair

Proceedings:

Aline Beresford presented top-line findings from the HCA Benchmarking
Surveys, taken from the discussion document 'Consultancy or Commodity?'
which can be downloaded from the HCA website: www.hca-org.uk

The report looks at the elements identified as constituting best practice in the
procurement process, suggests some possible consequences if the industry
were to move towards a purely 'cost-containment' approach and asks what
needs to change.

The four main speakers then gave their own perspectives on how things are
now – and how they would like to see the future developing.

Colette Goldrick explained that the process of appointing a consultancy is becoming increasingly complex, in line with global procurement procedures, and in-house communications specialists may feel detached from the process of negotiating with consultancies. In addition, companies are 'swimming in an acronym soup' as compliance processes also increase in complexity – the impact of which should not be underestimated.

Key things that clients are looking for from a consultancy:

- Bright people with strategic, customer and stakeholder insights that may not exist internally.
- Increasing attractiveness of a PA/PR interface or NHS background.
- Willingness to challenge.
- No junior staff 'training on our time' producing drafts that need reworking.
- Fewer 'classic PRs' but 'we still want the column inches'.

What does best practice look like?

- One team, with all members understood and valued, no 'master and servant' relationship.
- Consultancies are valued and needed more than ever – no desire to 'negotiate' consultancies out of business, but attempts to offload or inflate costs are not appreciated.
- The 'value-add' should be transparent.
- Consultancies staffing accounts on a 'talent pyramid' (e.g. senior staff fronting the pitch but with little subsequent involvement) will not win retain business (though this does present a tension as (more expensive) strategic senior staff are increasingly needed, whilst tighter margins challenge the practicality of this).

To move towards this, the things that need to change were identified as:

- Clients owning the procurement process, not just devolving to internal specialists.
- Resource being allocated to developing and sustaining a strategic partnership.
- Consultancies becoming involved in the entire brand strategy (and the strategic needs of the organisation) and seeking to build strategic alliances/networks with other suppliers (e.g. advertising agencies).

Emma Sergeant likened the pharma company/consultancy relationship to a love affair – everyone wants a happy ending, but too often the relationship ends in heartbreak. The key themes of Emma's presentation are outlined below.

Procurement can sometimes make the selection process a bit like a 'blind date' – taking away the responsibility that marketers/communications people should have towards ensuring that they understand exactly what they are buying. Sometimes a 'quick match/cheap date' is fine – e.g. when all that is required is an agency to churn out press releases, as long as all parties are

clear that this is what's being bought. But this is rarely the case in communications, where increasing sophistication is needed as market access gets harder and issues management more complex.

The ideal role for procurement is as the 'perfect matchmaker' and 'facilitator of the pre-nuptial agreement' (often consultancies and companies are 'in bed' before the parameters of the relationship have been properly agreed – time needs to be factored in for this and procurement can help). Procurement can also act as 'marriage counsellor', improving communication between consultancy and client, and helping to take the emotion out of problems. The cost of failure is high for both client and consultancy, and both are responsible for preventing failure.

Improved measurement and recognition/reward for success will help to foster positive relationships. To pursue the 'happy ending' there needs to be belief in and building of the consultancy model, investment in healthy relationships – rewarding the long-term, careful consideration of whether the match is right, and being prepared to walk away if it's not!

Sioban Shortt commenced with two key points about her approach to procurement:

- Procurement is changing - we are trying to move away from being perceived as "P/O pushers." We try to recruit great talent. My team consists of both masters in supply chain management and from the business, myself coming from a public affairs/communications background with the European Commission. It is, however, still tough for us to recruit and retain talent that understands marketing communications as not being about just squeezing rates, but delivering value in many different ways
- Client and consultancy need to bring in procurement early to understand their business. Procurement cannot work in a silo.
 - I task my team to spend as much time with our communications team as possible to understand the goal of communications for the brand/corporation and participate in outputs e.g. attending media trainings, press events etc.
 - I also encourage my team to spend time with the consultancy - understand what it takes on their side.
 - Process improvements - we can ensure there is the groundwork in place on which to build great relationships. Contracts, briefs, review processes etc.

She explained her key principles and advice for when working with her in-house teams to procure consultancy services:

- 'Buy it and pay (the appropriate price) for it'.
- 'You (marketers/in-house communications) know what you want – we (procurement) will tell you what you should expect to pay for it'. (However, continuing Emma's theme that procurement should not

remove responsibility from the client, this should *not* mean a situation where 'procurement talk money to protect the consultancy-client relationship').

- 'Please, don't go out to pitch unless you really have to' – there needs to be a very good reason to pitch after less than four years with a supplier (consultancy expertise and continuity on a brand can be vital when marketers move on to new roles).
- Procurement can help the client (particularly marketing who don't always know how to manage suppliers and may treat the consultancy as a 'glorified meetings organiser') to appreciate the value of the communications consultant.
- There is too much squeezing of profit margins – consultancies need to make an appropriate profit margin, but perhaps there are other ways to save – e.g. if training is needed can the client pay for it (in a transparent way with a clear ROI for the business), or can a 'commodity-type' element of the programme be split off to a different supplier.
- Transparency is not so much about a detailed breakdown of costings, although this can be an important element in building trust. It is about being open and honest, a true partnership – e.g. why a consultancy's senior people are worth the extra fee, or, conversely what are the gaps where perhaps the agency does not have a particular expertise and some sort of risk-share option could be looked at – at present this level of maturity of discussion is rare. If a consultancy is transparent procurement will 'be your advocates and support you all the way'.
- Putting a value on the 'great idea' is an aspiration. Sioban always asks consultancies 'What keeps you awake at night?' and 'What would you do if you owned the brand?', but defining value is difficult and as an industry we are not there yet. However, she feels we should, together, be looking at performance-related compensation models to reward consultancies for great work.

Karen Winterhalter described her experiences of procurement as 'the good, the bad and the ugly'. At the good end of the spectrum, procurement had helped to manage a product manager's budget expectations, realign a budget when projects changed, negotiate payment terms and achieve better value for the consultancy. At the 'ugly' end, fees rates were reduced, payment terms ignored and promised volume business not delivered.

Karen described 'Tight Tony', who has only a commercial interest in consultancies and just wants to 'punch the numbers' and agree the contract. Karen suggested that this is perhaps much more typical of many pharma procurement people today, than the 'enlightened' approach presented by Sioban.

In terms of what needs to change, Karen identified a number of areas that consultancies need to consider, now that procurement are here to stay, including:

- Developing expertise in negotiation, which includes thinking about what you are prepared to give away in exchange for maintaining fee rates – because something has to give.
- Understanding the financial implications and getting finance involved early.
- Improved management of the contract – e.g. the 'can you just' factor* and negotiating senior management time into the contract.
- Ensuring that the client (including marketing) understands what has been agreed and being prepared to request a second budget review if the scope changes. Procurement can play a useful role here.
- 'Holding our collective nerve and not 'crumbling', for the benefit of all consultancies'.

(*Sioban agreed that this is an important issue and suggests always agreeing a little bit extra as a 'can you just' contingency. Also, once the first year's fees have been negotiated on a very transparent basis, this can be set as a *baseline* for the next year).

Ultimately, collaboration between consultancies and clients is crucial, and this means understanding each other's different priorities. Without this collaboration there is a real risk of consultancies losing a significant part of their business.

Key issues raised in the debate

(Note: Some issues were raised by a single person, so do not necessarily represent an opinion that is widely held amongst the participants).

Differences between small/large consultancies:

Concern was expressed about moving towards preferentially inviting agencies from large networks to pitch, because of the opportunity for an integrated service across different disciplines – could this mean smaller consultancies – who may have very valuable expertise – are overlooked? Sioban explained that in fact her model does not exclude small consultancies, but is trying to have the agency networks support a more integrated brand planning approach with consistency across all communications channels.

On the other hand, one comment from the floor suggested that, on occasion larger consultancies may be disadvantaged by small organisations offering 'premium services at lower prices', thus giving procurement the platform to drive down rates. (Sioban's view on this is that a good procurement team should understand the cost drivers and operations of a consultancy to set a, "fair market rate" not just drive down costs. Procurement can add value in understanding the dynamics of the client's team. There was some discussion around the fact that some teams may be less experienced or under resourced etc. This impacts the type of support and, thus, the costs of the consultancy).

Transparency:

The question was raised from the floor as to whether pharma companies share their cost-of-goods with the DoH, and how the discussions they have with NICE etc. compare to the sorts of discussions consultancies are expected to have with procurement teams?

Colette pointed out that companies themselves are increasingly being asked by government for greater transparency around pricing and value. So in future companies may well be expected to share more of the information that they currently ask consultancies for in procurement negotiations.

Defining value:

As outlined by Sioban, identifying what value looks like is crucial when trying to move away from a purely cost-containment approach.

But the concern was raised that 'We ask them (procurement) how value looks to them, but they don't know, so how can we demonstrate to them our value, rather than just filling in a form to see where we can cut costs?'

The 'pyramid' model:

As mentioned earlier, pharma companies dislike consultancies who put their best people on a pitch, but don't subsequently involve them in the day-to-day work on the account.

Various points were raised on this subject:

- Agencies can suffer from this too, and lack of access to senior in-house staff can sometimes result in the agency compensating by 'matching' junior staff with peers with whom they may feel more comfortable working.
- In the past it was sometimes the most junior people who were given responsibility for communications as it was a small part of the budget, but this is changing.
- Procurement sometimes force the pyramid model by driving down rates so that consultancies can't afford to put senior people on the account.

The reality of the 'PO pusher' vs. the 'enlightened procurement partner':

There was a general feeling that Sioban's approach is by no means typical of most consultancies' procurement experiences. A show of hands indicated that nearly all the consultancy delegates had had more negative experiences of procurement e.g.

- No opportunity for a 'win-win' outcome because discussions just focussed on driving down rates – procurement just having a remit to reduce costs.
- Terms imposed after the pitch that the consultancy was not expecting.

However two-thirds had also had positive experiences, and there was a feeling that things are gradually moving in the right direction, and there are some positive examples to build on.

What can we do to move forward?

- Education (on all sides).
- Reframing what we currently do.
- Remembering it's a triangle – in-house communications/marketing, not just consultancies working with procurement. If procurement just want to drive down costs, it becomes essential to go back to marketing/communications and get all 3 parties in the room to look at how the budget has been set/why it has been cut and whether more money can be put into communications.
- Consultancies standing their ground, and explaining *why* they can't go any lower.
- ISBA (Federation of Advertisers) in the UK has a procurement arm, and a Pharma action group is looking at best practice in agency relationship management. Some of the findings may also be relevant to communications.

Overall, it was concluded that this meeting was the start of a process. We now need a working party to develop a detailed model of best practice.