



HOW PURCHASING CAN SAVE YOUR CLIENTS MONEY

by Jack Soames of Halkin Purchasing

Purchasing is often thought of as being the preserve of large companies or organisations. For example, raw materials, vehicles, stationery, insurance and other service contracts – indeed almost everything bought in large batches or high-value contracts – falls under the remit of the purchasing department, whose task is to minimise the company's costs of acquiring goods and services.

In fact, the purchasing skills that are deployed by large organisations can be used to equal effect in the world of family offices and UHNWIs. Applying the same techniques, it is possible to significantly reduce the costs of acquisition of yachts, aircraft, art, jewellery, property, vehicles, professional and service fees and much else besides. Of course, few family offices can justify the expense of employing an in-house purchasing team or employee. However, it is possible for them to outsource either to individual specialists, or delegate to an employee who has the knowledge or time to do the necessary purchasing.

This route is not without its pitfalls, however. If we look at the art market, for example, there is much scope for participants to serve their own interests, rather than those of the buyer. Thus an

auctioneer or art dealer asked for his or her advice, may be tempted to steer a potential buyer towards what he has to sell – or that which he is finding difficult to sell – or a work of art of inferior quality. Equally, delegating the purchasing decision in-house or to a broker e.g. a yacht captain or yacht broker, can also end up being disadvantageous to your client.

Many companies supplying the ultra-luxury market – be it marine, aviation, art, jewellery or property – operate a system of introductory commissions or 'kickbacks'. These will differ from one asset class to another, but the generally accepted figure is 10% of the value of the deal.

Despite these commissions often running to tens of thousands – and even hundreds of thousands of pounds – they are rarely, if ever, rebated to the family office or client. Furthermore, if an individual is seeking the best deal for himself – regarding commission – it is unlikely that he can also be seeking the best deal for his client or employer. It is not just assets, where there is scope for a client overpaying. For example, renegotiation of service and maintenance contracts for a yacht or aircraft can bring substantial savings. The annual cost of

maintaining a yacht is roughly 3% of its purchase cost i.e. £300,000 for a £10m yacht or £3m for a £100m superyacht.

A purchasing agent will aim to achieve a 10% reduction in the annual service quote, by conducting a competitive tender between reputable boatyards. And that is before he has even opened a discussion about the kickback. Add the two together and the saving can be as much as 15% or more.

Another way a purchasing agency will look to achieve savings on the running costs of a yacht, is to conduct an insurance audit. A yacht will often have several separate insurance policies – including for the vessel itself, the artwork and health insurance for the crew. Combining these policies will result in a lower overall price. Furthermore, using a single provider to ensure a client's total assets – worldwide homes, yachts, aircraft and art – will achieve a marked saving. For when placing such substantial business, a client will be handled as an institutional investor – not a private client – which will result in much-improved rates.

Some requests, however, are impossible to fulfil. A client of ours, the former CEO of a Russian

state bank, asked us to secure for him a box for 24 at a well-known West London football club for the 2014/15 season. However, there were no boxes available – there rarely are. So, far from being able to save the client money, we were looking at paying a premium, if indeed we could fulfil the client's request at all. In this particular case, we used our contacts to find another box holder – a property developer - who was willing to share. One of the reasons was that he had been seeking an 'in' with the Russians – hence the proximity of his box to the club's owner - and this presented him with the ideal opportunity.

Another client, a member of a Middle Eastern Royal Family, was looking to buy a Gulfstream G650. This is the 'must-have' business jet of the moment, for which – even at a list price of \$73m - there is currently a four-year waiting list. So once again, no discount was achievable. However, our aviation buyer has a strong relationship with Gulfstream, having bought several of their aircraft in the past. He was, therefore, able to use his influence to have our client moved up the waiting list by two years. Also, to tide him over, he negotiated the purchase of a similar-sized 2011 Dassault Falcon 900 LX for a bargain \$27.5m - a price he expects to recoup largely for the client in 2 years' time.

A purchasing agency can also be tasked with advising on the most effective way to sell an asset. The techniques will vary from one asset class to another. In managing the sale of a property, the procurement agency will conduct a competitive tender between suitable estate

agents. A skilled negotiator will aim to achieve a discount on the agent's commission of between 33% and 50%. Once again, introductory commissions are commonplace - typically 20% of the agency's fee – giving the procurement agent further scope to negotiate down the agency's quote. He will also take into account whether the estate agency has a similar property for sale; how much time senior management agree to commit personally to the selling process; and how much, the agent will be spending on marketing the property.

Possibly the purchaser's most important task, though, is to oversee the conclusion of the deal. Top private residential valuer and negotiator Anthony Newman points out: "It is as well to remember that the estate agent has less incentive to hold out for the best price, than the vendor. For example, a 5% increase in the sale price of a £10m property is worth £500,000 to the vendor. To the selling agent, charging 1.5% commission, it would be worth a mere extra £7,500."

In the case of yachts and aircraft, savings or gains can amount to millions of dollars. This is partly because the values are larger, but also because more optimistic prices pertain at the outset - similar to the property and car markets – giving greater scope for a positive outcome for purchaser and client. Whether buying or selling - as with all asset classes - the key is to use international price benchmarking; forensic due diligence; and tenacious negotiation regarding

the counter party's professional fees, margins and commissions. Also, a top purchaser should have a wide network of contacts in all of an asset class's key international markets. He should also be known for his integrity and judgement in his market and be well-acquainted with its business practices.

These qualities, together with the deployment of competitive tendering (where appropriate), reclaiming and rebating kickbacks to the family office, and implementing cost-effective operating and maintenance regimes will achieve gratifying results. What also sets the procurement expert apart, is that he works solely on behalf of the client, choosing or determining the most profitable option to buy or sell. With no commercial affiliations, his only aim is to maximise his client's advantage.

In respect of charges, there is no norm. Some agencies charge a flat percentage on the purchase or sale value – a pricing model used by property search agents. Others charge a higher percentage, but it is levied only on the actual saving or gain achieved for the client.

There is one last consideration. In a climate where clients are forever seeking improved results and reduced costs, what better way for a family office to demonstrate a commitment to serving a client, than by saving him money by reducing outlay and improving returns in the management of the family's non-financial assets?

